A+

DRIVING BUSINESS SUCCESS

Issue 1 Volume 19 January 2023

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BOARD DIVERSITY

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A RENEWED PURPOSE

Loretta Fong, Institute President, on what the Institute's new chapter means for members, and how it will help CPAs thrive amid change

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

"I believe that in our redefined role, the Institute is on track to achieving its strategic goals and will play an even bigger role supporting members throughout their professional lives."

Dear members,

Happy Chinese New Year! Wishing you all a prosperous year filled with blessings, good health and joy. I hope everyone had a pleasant and relaxing break and you are now ready to leap into the Year of the Rabbit.

The Year of the Rabbit truly feels like a new beginning for Hong Kong and the Institute. We have begun seeing major removals of the city's anti-epidemic measures, including the vaccine pass requirements, social distancing measures, and issuance of isolation orders, as well as the border reopening between Hong Kong and Mainland China. Hopefully this will promise an imminent recovery to our economy.

For the Institute, not only are we settling into our redefined role under last year's regulatory reform, we are entering our 50th anniversary since our establishment in 1973. This is indeed a major milestone worthy of celebration and a great opportunity for the Institute to share its storied history with the public. With social distancing measures being phased out, we also anticipate a return to physical events, just in time for the festivities.

This is also a new start for *A Plus* magazine. After publishing our last monthly issue in October 2022, we are finally making a triumphant return under an all new digital-only quarterly schedule. The magazine has shifted fully online as part of the Institute's commitment to net zero carbon emissions as well as our strategic plan to enhance our communications. With that in mind, it is important that our readers receive the best experience possible. Through our newly refreshed website, we have enhanced a number of functions to make it easier for readers to search for specific topics or bookmark stories for your enjoyment later, among many other quality-of-life improvements.

Of course, there is always room for improvement. *A Plus* has been the Institute's official magazine for almost 20 years, and has gone through multiple iterations and revamps to keep with the times. I encourage you to explore the website, and welcome you all to utilize the form at the bottom of the website to let us know your thoughts on the latest refresh.

As we enter the Year of the Rabbit and step into our 50th anniversary, I feel very optimistic for the Institute and our members. You can read all about my thoughts on the current state of the Institute and the professions in my interview on page 22. In short, I believe that in our redefined role, the Institute is on track to achieving its strategic goals and will play an even bigger role supporting members throughout their professional lives.

In the interview I also talk about what I consider to be the new era of the accounting profession – "**Accounting²**".

One of the important roles the Institute has retained, is as an advocate for a better future for Hong Kong and improvements to the business environment.

Just before the Chinese New Year break, we held a media briefing on our budget submission for 2023-24. Under the theme "Reconnect and Renew," the submission includes a range of measures under three main headings: 1) Reinforcing Hong Kong's international status and competitiveness; 2) Making Hong Kong a more liveable city and community measures; and 3) Measures to help achieve carbon neutrality and sustainability goal. You will find a summary of the submission in this issue on page 34 and the press release on the Institute's website. There will also be a budget response after the financial secretary delivers his budget next month, so stay tuned to our communications.

The Institute's 50th anniversary celebrations will be announced fairly soon. I encourage you to keep an eye on our communications in the coming months, and seize opportunities to participate in the Institute's events. They will surely be joyous occasions to share with colleagues and friends.

Loretta Fong
President

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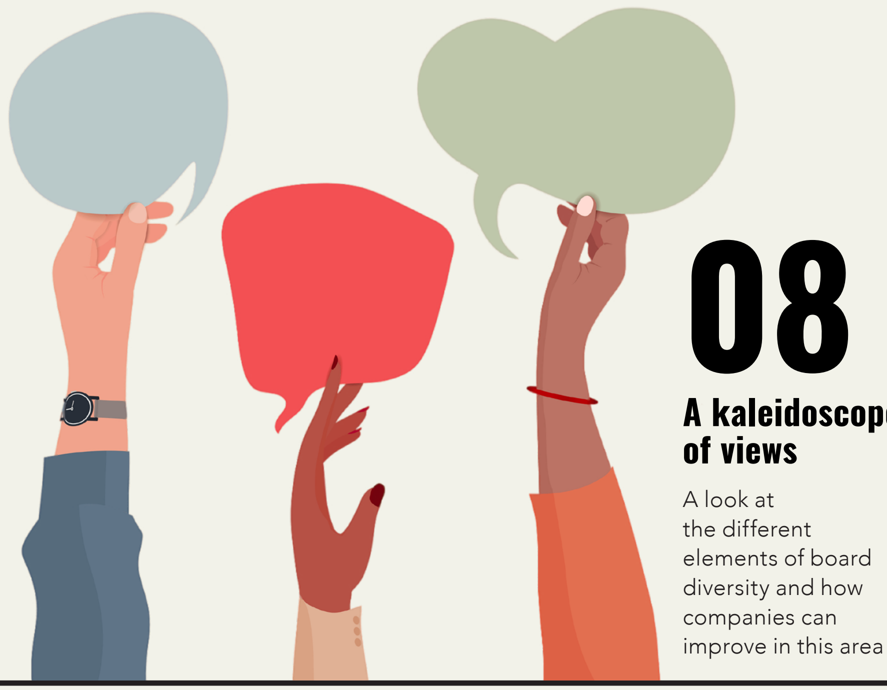

DRIVING BUSINESS SUCCESS

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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ISSN 1815-3380

The digital version is distributed to all 47,927 members, 14,266 students of the Institute and 2,358 business stakeholders every quarterly.

Institute announces tax policy and proposals for 2023-24 Budget

(From left) Eugene Yeung, Convenor of the Budget Proposals Sub-Committee; Loretta Fong, President of the Hong Kong Institute of CPAs; and Sarah Chan, Chair of the Taxation Faculty Executive Committee.

The Hong Kong Institute of CPAs released its proposals for the government's 2023-24 Budget earlier this month. The proposals include a range of measures to reinforce Hong Kong's international status and competitiveness, to make Hong Kong a more livable city, and to achieve carbon neutrality and sustainability goals. The recommendations call on the government to provide specific incentives and concessions for international businesses and individuals, roll out targeted support measures to businesses and citizens to help overcome the challenges pending a stronger economic recovery, while also taking necessary steps to enable Hong Kong to achieve carbon neutrality by 2050.

The Institute estimates that the fiscal deficit for 2022-23 will reach HK$113.9 billion, slightly more than double the government's original forecast of HK$56.3 billion at the time of last year's budget. It comes as a result of lower land sales in 2022-23, and a weak economy following the fifth wave of the pandemic in 2022. "We expect that Hong Kong will continue to face various challenges in 2023 due to the global outlook, with the World Bank forecasting only 1.7 percent growth worldwide, the continuing conflict in Ukraine, high inflation affecting many economies and rising interest rates. With the projected deficit, Hong Kong's fiscal reserves are expected to drop to HK$843.2 billion by the end of March 2023," says Loretta Fong, Institute President.

The budget proposals and the press release are available on the Institute's website. Read the summary of our recommendations on page 34.

Best Corporate Governance and ESG Awards 2022

The Best Corporate Governance and ESG Awards presentation luncheon ceremony was held on 6 December 2022. A total of 27 companies and public sector organizations were recognized in the 2022 Awards, including 10 winners of the top awards category, the Most Sustainable Companies/Organizations Awards. The full results, judges' report and press release are available on the Institute's website. Read the article featuring some of the awardees on page 8.

Joint statement on the designation of Fellows of the HKICPA (practising)

The Institute and the Accounting and Financial Reporting Council (AFRC) issued a joint statement clarifying that Fellows of the HKICPA who hold practising certificates are eligible to continue to use the designation "Fellow of the Hong Kong Institute of Certified Public Accountants (Practising)" and initials "FCPA (practising)."

The AFRC, which is the responsible authority for issuing practising certificates to CPAs, decided to maintain the status quo given the wide acceptance and recognition of the designation and the initials in the accounting profession.

Annual report 2022 out now

Themed "Building upon Change", the Institute's 2022 annual report focuses on the journey of the Institute and its members in navigating significant changes under the regulatory reform and major industry developments in Hong Kong. The photo essays feature members who are rising to meet major changes under the Institute's redefined role and who have contributed to our various initiatives to build upon and thrive amid change. The report is available on the Institute's website.

Research report: Board diversity in Hong Kong

The Institute conducted a brief study on the current state of board diversity in Hong Kong, which covered over 1,800 listed companies with their financial year ending on 31 December 2021, looking at board size, number of long-serving independent directors, and diversity, in terms of gender, age and professional qualifications, in particular, accounting qualifications. The research report is available on the Institute's website.

Minutes of the 50th AGM

The minutes from the Institute's 50th annual general meeting (AGM) held on 8 December 2022 are now available.

Council meeting minutes

The abridged minutes from the November and December 2022 Council meetings are now available for members to read.

Disciplinary findings

Cheung Hing Chik, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of integrity in section 110.1 A1(a) and subsections R110.2 and R111.2 under Chapter A of the *Code of Ethics for Professional Accountants* and the fundamental principle of professional behaviour in section 110.1 A1(e) and subsections R110.2 and R115.1 of the Code issued by the Institute, and being guilty of professional misconduct.

Cheung carried on his practice both as the sole proprietor of C&N Certified Public Accountants (C&N CPA) and as one of the two practising directors of Charles H.C. Cheung & CPA Limited (CHCC). In February 2021, he filed an annual return (return) with the Institute for the renewal of his membership and for the issuance of a practising certificate (PC), for the year of 2021. In the return, Cheung declared that he was not a bankrupt, nor had he become bankrupt. Acting on the representations, including the aforesaid declaration made by Cheung in the return, his membership was renewed and a PC was issued to him.

It was subsequently discovered that a bankruptcy order (BO) was issued against Cheung by the High Court in August 2020. Although Cheung had applied to rescind the BO, his application was dismissed in September 2020. Cheung's appeal against the said dismissal was also rejected by the Court of Appeal in July 2021. Cheung's leave to appeal to the Court of Final Appeal was also refused in November 2021. Having discovered the BO, the Institute cancelled Cheung's PC in May 2021. As a result, C&N CPA was removed from the Institute's registration of firms, and CHCC was subsequently changed to a sole-practising member corporate practice.

Decisions and reasons: The Disciplinary Committee found that Cheung had falsely declared to the Institute that he was not a bankrupt nor had he become bankrupt when he renewed his PC for the year 2021 and had failed to resign as a director of CHCC in accordance with the requirements of the Companies Ordinance when he had become bankrupt. Cheung admitted to the complaint against him. The committee found that Cheung had been guilty of professional misconduct. The committee reprimanded Cheung and ordered that the name of Cheung be removed from the register of CPAs for 18 months with effect from 3 February 2023. In addition, he was ordered to pay costs of the disciplinary proceedings of HK$55,630.50.

Tang Chung Wah CPA (practising) and Lee Fung Ying, Alison CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply sections 100.5(e) and 150.1 of the *Code of Ethics for Professional Accountants*, and guilty of professional misconduct and dishonourable conduct.

The respondents were joint and several liquidators of a private company. At the relevant time, they were also partners of a firm of CPAs that was later de-registered. In 2015, court orders were issued requiring the respondents to produce certain documents pertaining to the liquidation. Following the respondents' failure to comply with the orders in full, the court found them guilty of contempt of court in 2016. While the contempt was subsequently purged by the respondents, they were sentenced to pay a fine totalling HK$500,000 and a substantial portion of costs on an indemnity basis.

Tang appealed against the Disciplinary Committee's decision. On 22 September 2022, the Court of Appeal handed down its judgment dismissing Tang's appeal.

Decisions and reasons: The respondents were reprimanded and ordered to each pay a penalty of HK$50,000, and jointly and severally pay costs of the Institute of HK$283,730. When making its decision, the committee noted that the contempt is serious and showed conduct falling far below that of a reasonable CPA. The committee also noted that the delayed production of the documents had caused irremediable prejudice to the party applying for the discovery, and that the Official Receiver had temporarily removed the respondents from all Panel A cases due to increased concern about this case. The committee further noted that while Tang was primarily responsible for not complying with the court orders, Lee had a non-delegable duty owed to the court and it could not be said that her breaches are less serious.

In deciding on sanctions, the committee considered a number of mitigating factors. These included the fact that the contempt was purged and that the respondents were fined by the court, the absence of dishonesty or fraud, the respondents' practice histories and contributions to society, and mitigating pleadings from their professional acquaintances. The committee's negative view of the respondents' conduct in the proceedings was reflected in the amount of costs allowed to the Institute.

Details of the disciplinary findings are available on the Institute's website.

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The number of weeks staff of the Public Company Accounting Oversight Board (PCAOB) spent in Hong Kong examining audits conducted by KPMG Huazhen LLP and PwC Hong Kong. The United States accounting watchdog on 16 December 2022 said it had full access to inspect and investigate firms in China for the first time ever, following a long-running dispute over the auditing compliance of U.S.-listed Chinese firms. The PCAOB said it identified numerous potential deficiencies and would release the inspection report this year.

Asmâa Resmouki

The International Federation of Accountants (IFAC) named Asmâa Resmouki as its new President in November 2022. "I am honoured to have been elected IFAC's next president, and proud to be the organization's first president from the Africa-Middle East Region," Resmouki said in a statement.

International Tax Reform – Pillar Two Model Rules

The title of an exposure draft published by the International Accounting Standards Board (IASB) proposing a temporary exception to the accounting for deferred taxes arising from the implementation of the Organization for Economic Cooperation and Development's (OECD) Pillar Two model rules. The IASB's proposal comes in response to concerns from its stakeholders about the potential implications of the OECD corporate tax rules when it comes to accounting for income tax in financial statements.

Crypto tax reporting is rapidly becoming globally coordinated, according to PwC's *Global Crypto Tax Report 2022*. The four main drivers behind this are: the OECD's Crypto-Asset Reporting Framework; updates to the Common Reporting Standard; the European Union's Directive on Administrative Cooperation 8; and the U.S.'s Infrastructure Investment and Jobs Act. The increased focus on the taxation of the industry follows recent high-profile business model failures of crypto exchanges and hedge funds, including FTX.

77%

The percentage of IFAC's Professional Accountants in Business (PAIB) Advisory Group which see data localization and data sovereignty as a challenge and not an opportunity. This was a key takeaway from a discussion among the group of business and finance leaders during its September 2022 meeting. The summary meeting report notes that the profession has an important role in supporting accountants in data stewardship roles, and in advocating for an international approach and coordination to data governance.

IFRS 17 *Insurance Contracts*

The accounting standard which applies to companies with annual reporting periods beginning on or after 1 January 2023. "IFRS 17 provides consistent principles for all aspects of accounting for insurance contracts. It removes existing inconsistencies and enables investors, analysts and others to meaningfully compare companies and contracts," says IASB Chair Andreas Barckow in a video.

"China is the world's second largest economy and plays a vital role in supply chains for companies around the world – making it an important jurisdiction as the ISSB develops its global baseline of sustainability disclosures for the capital markets."

– Emmanuel Faber, International Sustainability Standards Board (ISSB) Chair. On 29 December 2022, the Trustees of the IFRS Foundation signed a memorandum of understanding with the Ministry of Finance of China to establish a Beijing office of the IFRS Foundation. The office staff will be focused on leading and executing the ISSB's strategy for emerging and developing economies, acting as a hub for stakeholder engagement in Asia. The office is expected to open in mid-2023. It was previously announced that the ISSB will have a global and multi-location presence, with all regions covered.

2°C

How much Deloitte in the United Kingdom has reduced its office temperatures, in a bid to cut carbon emissions and costs amid the war-driven energy crisis, according to media reports. Deloitte told its U.K. staff that its offices would now be heated to between 19 and 22 degrees Celsius as part of new energy-saving plans. Deloitte aims to reduce its carbon emissions from business travel by 50 percent per full-time employee by 2030, compared with 2019 levels.

A KALEIDOSCOPE OF VIEWS

Winners of the Best Corporate Governance and ESG Awards 2022 share their experience of the benefits brought by board diversity and the steps companies can take to improve in this area. Nicky Burridge reports.

Companies are becoming increasingly aware of the advantages of board diversity to help them thrive in a rapidly changing business environment. Embedding diversity into an organization's culture not only improves its business performance in the short-term, but also helps to drive long-term sustainable development for the company and benefit the wider community.

However, the Hong Kong Institute of CPAs' recent research report titled *Board Diversity among Listed Companies in Hong Kong*, which looked at the board diversity status of 1,844 December year-ended listed companies for 2021, found that many corporates in Hong Kong are lagging in this area, in terms of both gender and skills diversity at the top level.

Danny Ho, Executive Director and Chief Financial Officer of Sa Sa International Holdings Limited, and an Institute member, believes a board with a breadth of perspectives is a key driver of effective corporate governance. He adds that it also helps ensure management practices and policies remain relevant in changing times. "A diverse board brings multiple perspectives, and a wide range of skillsets and experiences, which are essential enablers when a company explores new market opportunities, evaluates risks, analyses business challenges and the potential of various geographical regions and customer segments, as well as making well-thought-out decisions," he says.

Danny Ho adds that having diversity is also conducive to enhancing board effectiveness and performance, as well as ensuring the long-term sustainable development of the company. With this in mind, Sa Sa strives to have a highly diverse board in terms of age, gender, academic background, nationality, professional experience and industry experience.

Patrick Ho, Deputy Head, Sustainable Development at Swire Properties, thinks having a diverse board helps ensure decisions are made more effectively by reducing the risk of "groupthink". He adds that bringing in board members with expertise in sustainability and environmental, social and governance (ESG) factors also helps to generate value for the company, as well as wider society and the environment.

"No company will be able to lead in sustainable development with a board lacking in diversity."

Robin Healy, Director, Company Secretariat at Link REIT, agrees. "Companies form an integral part of society, and more diverse boards provide for enhanced exchange and dialogue. No company will be able to lead in sustainable development with a board lacking in diversity," he says.

Having a diverse management team enables companies to think broadly, making them better placed to consider the long-term sustainable success of the organization, while also ensuring it makes a positive impact, according to Michael Ling, Joint Company Secretary at CLP Holdings. He adds: "Our commitment to high standards of corporate governance adds value to the business, and ensures sustainability is well-embedded into our corporate thinking and management. Board diversity is an essential element contributing to the good governance and ultimately, the sustainable development of CLP."

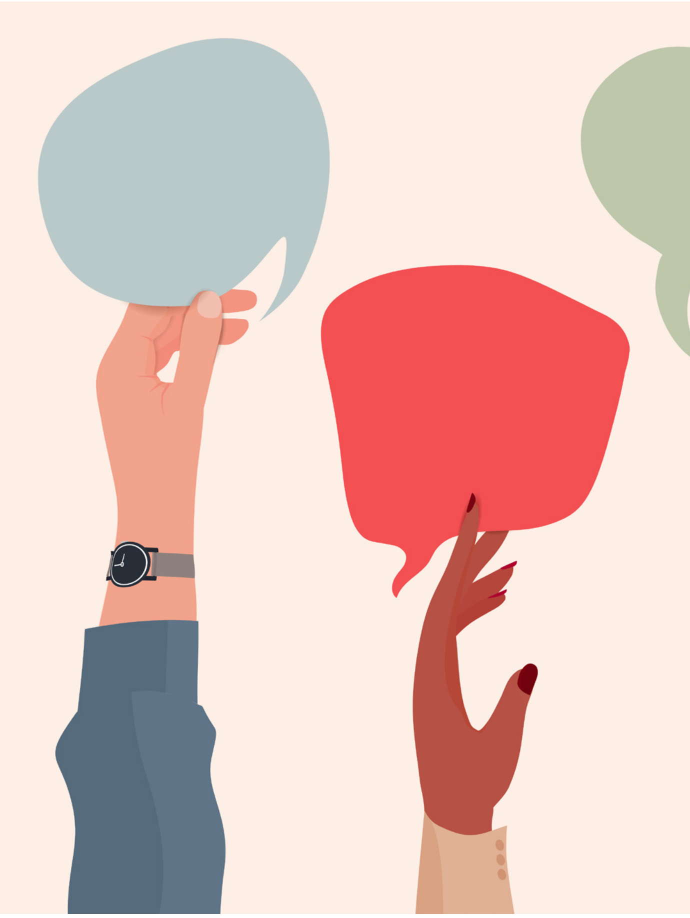
Ben Ng, Chairman and Executive Director of Baguio Green Group Limited and an Institute member, points out that having a diversified board not only enables the company to access a wider talent pool, but also ensures different ideas, new angles, wider perspectives, opposing views and challenges are considered before making a decision. "It enhances the company's insight, improves corporate governance and optimizes the decision-making process," he says. But Ng adds that having a diverse board can potentially lead to more conflict, and it may also take more time for the board to reach a decision.

Gender diversity

Having women on boards is an important element of board diversity. "Having well-balanced gender diversity ensures the talent and perspectives of both females and males are well represented, and this can help boost decision-making quality and avoid blind spots," says Patrick Ho.

Ng adds: "Different genders have different approaches and considerations for different situations and problems, giving wider perspectives for decision making. Women account for 37.5 percent of Baguio's board of directors. Having a diverse board enhances the company's reputation through promoting gender equality."

Danny Ho points out that 50 percent of Sa Sa's board members are women, explaining: "We operate in the beauty industry where female consumers make up



an essential part of our customer base. We believe insights from women are important, and women with the necessary skillsets will be valuable board members."

But the Institute's research found that while around 70 percent of companies had at least one female member on their board, overall women accounted for just 14.3 percent of board members at companies covered by the research – significantly below the international benchmark of 30 percent. Healy expects recent changes to the Hong Kong Listing Rules to help address this gender imbalance, but he adds that a concerted effort from business leaders will be required to ensure Hong Kong's board diversity follows the globally leading business practices it demonstrates in other areas.

At CLP, more than 30 percent of directors are women, but Ling thinks across Hong Kong as a whole, the female representation and voice has yet to be truly valued by organizations. "I personally believe that male allies, under which male colleagues at a relatively senior level within an organization champion the cause of gender diversity, would help improve the situation. Director search consultants also now have a rich pool of female director candidates, so do tap into these," he says.

"Having well-balanced gender diversity ensures the talent and perspectives of both females and males are well represented, and this can help boost decision-making quality and avoid blind spots."

A range of perspectives

Gender is only one element of the board diversity needed to help companies maximize their performance, with Healy pointing out that diversity in terms of age, ethnicity and skillset are all also important. "For diversity to add value, boards need to attract those who think differently, contrarians who can challenge groupthink. Companies that cannot innovate and change, inevitably fail. When populating the board, companies, therefore, need to hire directors who can run the company of today and also the divergent thinkers who can create the company of tomorrow," he explains.

Patrick Ho says when deciding on appointments to its board, it is Swire Properties' policy to consider gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the company's principal shareholders.

Professional diversity is also key to having an effective board, according to Danny Ho. "At Sa Sa, our board has included members with different professional backgrounds, such as retail, finance and accounting, law, brand management and development, marketing, talent management, ESG, and technology, enabling diversity of thoughts for fostering fresh ideas."

Ng adds that as the direction of Baguio moves towards technology and digitization, its board includes members with a profound knowledge of information technology.

Healy thinks it is also beneficial for boards to include professional accountants. "The skills of a qualified accountant are at the heart of every successful business. This goes beyond the traditional notions of numerical fluency to an understanding of the role of a director as it pertains to risk, control and good governance. The old adage of an accountancy qualification being one of the best apprenticeships in business holds true today."

Danny Ho agrees: "Qualified accountants are able to understand the ramifications of business decisions on a multitude of angles, be it profit and loss, financial position, cash flow, controls, risk, compliance and data management, and hence are very well placed to act as caretakers of the company." He adds that extending the role beyond independent non-executive directors (INEDs) or non-executive

directors enables the qualified accountant to be involved in the daily operation and strategic planning of the business and follow through on matters identified and discussed at the board.

Ling agrees on the value of involving qualified accountants on boards, adding that many of CLP's INEDs have professional accounting qualifications. "Given the increasing complexity of financial and sustainability reporting, it is important that our board members have accounting knowledge, so that they can inform the company of the latest standards and what they entail," he says.

At Baguio, two of the company's executive directors are Institute members. Ng points out that as laws and regulations change, qualified accountants can obtain relevant updates through their professional channels, such as the Institute. "They can also assist with the introduction and translation of relevant detailed professional guidelines, such as professional terms, into simple steps for the company's internal operations," he says.

> "Qualified accountants are able to understand the ramifications of business decisions on a multitude of angles... and hence are very well placed to act as caretakers of the company."

But despite these benefits, the Institute's research found that around 20 percent of companies have a qualified accountant on their board who is an executive director, and among the 321 companies which do not have board members who were qualified accountants, only 24 percent of CFOs/finance directors held the qualification.

Previously, the Listing Rules, for both the Main Board and the Growth Enterprise Market, required companies to have a qualified accountant as a member of the senior management and preferably on the board. However, this requirement was removed in 2009.

Improving diversity

For companies looking to increase their board diversity, Danny Ho suggests establishing a board diversity policy setting out the framework for achieving board diversity in the company. "It is a good practice to review the policy periodically to ensure it remains relevant to the company's needs and reflects both regulatory requirements and good corporate governance practices," he says.

When it comes to gender

diversity, he adds that companies should also take a longer-term approach and invest in building a steady pipeline of female candidates who are ready to compete for board seats. "Diversity does not start with or end with the board. Diversity and equal opportunity, run through the fabric of Sa Sa and exist at core management team level and below," Danny Ho says.

Ng suggests a good starting point is creating a board culture that respects different views and ideas, encourages open discussion and honest feedback, and is open-minded to accept others with different views. "The company also needs to set medium- and long-term development directions and goals in order to maximize the effectiveness of corporate governance," he says.

Healy suggests companies start by looking at board strategy. "Their strategic objectives will likely create impetus for increasing board diversity, and importantly that of your talent pool." He adds that to increase diversity, companies may need to look beyond the traditional director searching grounds of

“Do look for what value a prospective director can bring to the board and the organization, rather than bringing on a director just to make the board look more diverse.”

former CEO and CFOs, and think about skillsets and the potential to add value in a more holistic manner.

Ling agrees, pointing out that when looking for new board members, current directors often tap into their own networks, which tend to be made up of people with a similar background. He also stresses that there are various aspects to board diversity, from gender, nationality, age, length of service and capacity. “In seeking to build a diverse board, do look for what value a prospective director can bring to the board and the organization, rather than bringing on a director just to make the board look more diverse,” he says.

Recognizing success

The Institute recognizes companies with the highest standards of corporate governance through its annual awards, which were in 2021 renamed the Best Corporate Governance and ESG Awards to reflect the growing importance of ESG. The awards also recognize the companies and organizations that have achieved outstanding performances in both corporate governance and ESG through the Most Sustainable Companies/Organizations (MSCO) Awards.

Swire Properties is an awardee of the ESG Awards in the non-Hang Seng Index (Large Market Capitalization) category. Patrick Ho says the award not only underlines the commitments which Swire Properties has made to implementing its Sustainable Development 2030 Strategy but is also confirmation that it is on the right track. “This motivates us to do more to achieve even greater positive sustainability impact for the company, and for the society and the environment,” he says.

Danny Ho says receiving one of the awards recognizes and reaffirms Sa Sa’s continuous efforts in maintaining high standard of corporate governance. It was given a special mention in the Corporate Governance Awards in the non-Hang Seng Index (Small Market Capitalization) category. “It is a great privilege, and we are thankful for this acknowledgement of our ongoing efforts in strengthening our corporate governance practices.”

Baguio, a new awardee, received a Commendation on Progress in ESG Practices in the Self-Nomination Awards. “It is the driving force for the company to continue to promote sustainable development. The company stands out in the industry in terms of corporate governance and ESG,” says Ng.

Link REIT is a winner of the MSCO awards, receiving a gold award in the Hang Seng Index category. For Healy, the award is a validation of all of the hard work and effort of not only the Link board but also the entire organization. “It is also important to recognize the value in these awards beyond any one team or organization in that governance and ESG will be central to creating sustainable organizations for all of our futures,” he says.

CLP is also an MSCO awardee, winning a platinum award in the Hang Seng Index category. Ling says CLP is “honoured and humbled” to receive one of the awards. “It certainly speaks to our strong commitment to corporate governance and the credit goes to my CLP colleagues who have showed strong dedication and hard work in maintaining our corporate governance standards and constantly challenging ourselves on how corporate governance could serve our organization better.”

CLP places a strong emphasis on integrating ESG and corporate governance, and is one of only a few companies in Hong Kong that produces an integrated report. “At CLP, sustainability governance has been embedded in the corporate governance structure throughout the group – from board-level committees to management-level group functions and business units. A strong governance framework is key to ensuring that the ESG issues CLP faces are incorporated into the corporate agenda,” Ling says.

He adds that a key principle behind the company’s integrated reporting is the value creation process and how that story is told to investors and stakeholders. Ling says: “To articulate the value creation process for CLP, there are a number of important and inextricably linked parts and these start with purpose, corporate strategy, and how the strategy is, or can be delivered while managing our ESG issues, and the role that ‘G’ (corporate governance) plays in facilitating management to deliver the desired strategic outcomes, financial performance and positive impacts or minimizing the negative impacts on the areas of ‘E’ and ‘S’.”

While around 70 percent of companies had at least one female member on their board, overall women accounted for just 14.3 percent of board members at companies – significantly below the international benchmark of 30 percent, according to the Institute’s board diversity research report. The report looked at the board diversity status of 1,844 December year-ended listed companies for 2021.

With their strong analytical skills and business sense, chief financial officers are prime candidates for future chief executive officers. Nicky Burridge talks to business leaders about what helped them successfully transition from a finance role to a more strategic one, and the strengths CFOs bring to the CEO position

Illustrations by Gianfranco Bonadies

The number of chief financial officers making the transition to chief executive officer is on the rise. In the first half of 2022, 8.1 percent of CFOs at some of the largest companies in the United States were promoted to the top role, up from 5.6 percent a decade earlier, according to executive search company Crist Kolder Associates.

The breadth of the CFO role today means CFOs already have many of the skills and qualities they need to be considered for the top job. But there is still additional experience they need to acquire in order to make the leap to CEO, while a mindset shift is also required to thrive in the top role.

Seize opportunities

Danny Ho, Executive Director and CFO at Sa Sa International Holdings Limited, and a Hong Kong Institute of CPAs member, thinks being prepared to seize opportunities is key in order to make the transition from CFO to the top job.

He started his career with an audit firm in the United Kingdom, before moving to KPMG in Hong Kong. After working as KPMG's audit partner for Cathay Pacific, he was keen to be involved at an operational level, and moved into the business sector. He took up a role with Diageo Plc, a multinational alcoholic beverage company, initially as its China lead for global audit and risk, and later as Asia-Pacific finance director.

STEPPING UP

During this time, he was offered the opportunity to oversee the transformation at Diageo's China white spirits subsidiary, Sichuan Swellfun Co. Ltd., which is listed on the Shanghai Stock Exchange. "This was at an extreme low point for the industry following the government's clamp down on corruption, which had led to sales dropping 70 percent overnight. Luck favours the brave and I found at my core, I like to take on the sort of challenge others might not," Ho remembers.

After six months, he had helped to steer the company towards profit, and transitioned to the CFO role and was appointed to the board, looking after finance, strategy, technology, digital transformation, supply, investor relations, internal audit and human resources.

Next, he took up a CFO/ business development role for UMP Healthcare China, followed by being CFO for Hong Kong-listed UMP Healthcare Holdings Limited, before being approached

by Sa Sa International Holdings for the role of co-CFO. While Ho is not a CEO, he was appointed an Executive Director with effect from 30 June 2022, and therefore accountable for the long-term success of the company.

Gerald Yu, CEO of digital payment processor BBMSL Limited and Institute member, agrees that seizing opportunities is important. He points out that he was given the opportunity to become CEO of BBMSL when its holding company was sold to Stripe. "To make the leap from CFO to CEO, you also need to have some sort of luck and grab the opportunities presented to you," he says.

Gain management experience

Yu also focused on gaining management experience. He started his career as an auditor, before making the transition into the corporate sector. In 2000, he became CFO of Panva Gas Holdings, which was later acquired by Towngas Limited. Yu then held CFO roles at a number of different companies before joining BBMSL.

Yu points out that obtaining management experience in areas other than the financials of a company, such as its strategic direction, was key for him in making the transition to CEO. This was difficult to do when he worked for Towngas, as the strategy was dictated by the holding company. "If you work for a smaller company, you have more opportunities to participate in active management. Without this exposure, it's very difficult to jump from CFO to CEO," he says.

Vincent Liew, CEO and CFO at hospitality management group HMG & Proventus Group, attributes his success in making the transition to the top job to consciously making an effort while he was working as an auditor at EY to not only understand the commercial aspect of a company's operations, but also the "why and what" involved in the decisions taken by the management of multinational corporations. "To leap from CFO to CEO, I sought to augment my financial expertise with operational experience," he says.

Liew achieved this when he joined Mercedes-Benz AG as head of business management – finance. He managed the whole retail dealership network's profitability enhancement programme in Greater China, helping to drive significant year-on-year growth. "Deloitte in Sydney saw this and asked me to join them as CEO for their Asia retail division."

Think like a CEO

Jennifer Tan, Chief Executive of Alipay Financial Services (HK) Limited and Institute member, attributes her success in moving from CFO to CEO to acquiring a deep knowledge of the telecoms industry.

After working as an auditor at an international accounting firm, and in a finance function at a Fortune 500 consumer goods company, she moved to Hutchison Telecommunications, where she worked her way up to finance director. She thought she would hold this role until she retired, but she was asked by the CEO to become managing director of the company's fixed line business.

After two years in this role, she was promoted to chief operating officer of the fixed line and mobile business. Always striving to find new ways to bring additional value to customers, Tan oversaw the introduction of e-wallet service Alipay HK, through a joint venture between Hutchison and Ant Financial. The initiative led to the creation of Alipay Financial Services (HK) Limited, with Tan appointed as the founding CEO.

> "One of the biggest strengths CFOs bring to the CEO role is understanding the stories behind the numbers on the balance sheet."

Tan thinks one of the biggest strengths CFOs bring to the CEO role is understanding the stories behind the numbers on the balance sheet. "Our training helps us very easily analyse and identify relationships between the numbers. When I first became a managing director, I could easily point out to senior management what the key revenue and cost drivers were and explain why I had laid down that business plan."

She adds that because CFOs support CEOs in running the business, they already have a more holistic view of operations than those in other C-suite functions.

Ho agrees that CFOs' strong grasp of numbers enables them to understand the impact of decisions on the financials. "My finance background enables me to instantly understand the ramifications of business decisions from a multitude of angles, be it profit and loss, the financial position, cash flow, internal controls, or risk," he says.

Ho adds that CPAs are well trained in controls and compliance, tend to be risk adverse, and knowledgeable of listing requirements. "This knowledge and understanding of the board members also enables me to act

A report by Spencer Stuart, an American global executive search consulting company, notes that "on average, [promoted CFOs] achieve higher levels of profitability during their early CEO years yet lag their peers in top-line growth… promoted CFOs need to equally lean into the less familiar: driving growth." The report, released in July 2022, studied more than 1,300 CEO transitions to predict the probability of success in the top job based on a CEO's last role.

as the bridge between the senior management team and the board, deciphering the multitude of business decisions that are taken to those matters relevant for the board, and likewise translate the board's requests into actionable items for the senior management team," he says.

Yu points out that the ability of CPAs to read financial statements helps with the planning of the strategic direction, budgeting decisions and the valuation of the company, which are essential in fundraising exercises.

Liew says that while a good CFO reports on a company's financials and key performance indicators in an accurate and timely manner, a better CFO takes charge of managing change in the company, and articulating the why and how for improving shareholder value. Acquiring these skills, he adds, sets up finance heads to become CEOs.

Beyond the numbers

Despite being well-versed in the finance side of things, many CFOs still need to acquire new skills and experience in order to make the transition to CEO.

Ho says despite this training, a mindset shift was still required when he became a CEO. "Most of the issues we deal with as CFOs have a set formula to identify the solution. However, as a CEO managing the business, you must be able to deal with ambiguity, make decisions when not all the data and analysis is available, trust your judgement and take measured risks," he says.

Ho adds that for him, the biggest challenge was changing his focus from risk to opportunity. Liew agrees, pointing out that CFOs are trained to be prudent, which can lead to them being overcautious. By contrast, CEOs must make bold and calculated decisions quickly. "I always adopt the strategy that no CEO can make the correct decisions all the time, but not making any decision is definitely incorrect. That is to say, a bad decision is better than no decision," he says.

Yu points out that CEOs also need to be more strategic than CFOs. "They need to have a vision for the company in five to 10 years' time, and get the management team to buy into that vision and perform their roles to achieve that goal," he says. Yu further points out that they also need to have more of an entrepreneurial mindset. "Being an accountant, you do your calculations and look at different scenarios, and probably plan for the worst-case scenario, but to be a CEO, you need a good balance between being an entrepreneur and being an accountant."

Yu also found that he needed to change his management style to run the company as a team, pointing out that to make the transition successfully, CFOs need good people management skills.

For Tan, the biggest challenges were also building up management skills and an understanding of different areas of the business, including sales, marketing, human resources and technology. "The management style for a CEO is very different to that of a CFO, as you need to motivate and manage people across different functions and drive them to achieve a common goal," she says. Tan adds that CEOs also need much deeper industry knowledge than CFOs, for example in e-payments, this includes understanding the technical side of the business and industry trends.

"Most of the issues we deal with as CFOs have a set formula to identify the solution. However, as a CEO managing the business, you must be able to deal with ambiguity, make decisions when not all the data and analysis is available, trust your judgement and take measured risks."

Making the transition

Many of those who have made the transition from CFO to CEO had completed a master of business administration (MBA) at some point during their career before taking on the top role. Yu took a year off to complete an MBA, after which he gained a position with a listed company. Meanwhile, Ho says the programme not only helped him to understand business models and opportunities, and routes to the consumer better, but it also exposed him to people from different backgrounds and industries, including entrepreneurs. He adds that the timing of taking an MBA programme to coincide with actual experience, is as critical as the course itself.

Tan also thinks having an MBA is valuable. "An MBA will not make you a CEO, but it will help you to step out from your CFO role, as you will learn to see things from a different angle."

Yu says continuing education, whether it's through doing an MBA, or reading books, or attending short courses, is important to gain a good understanding of the non-financial aspects of running a company. He also advises Institute members who want to make the transition to work for smaller companies to

ensure they obtain management experience.

Ho encourages Institute members who want to progress from CFO to CEO to place focus on the commercial finance function, which supports business operating decisions by ensuring the financial ramifications have been fully assessed, and get involved in commercial decisions. "CFOs also tend to look after certain digital projects, such as capturing and using data to inform decisions, and they are well-placed to drive digital transformation. The key is not just to do internal management, such as enterprise resource planning, but to drive change at the commercial end, such as customer relationship management," he says.

Tan suggests accountants wanting to make the transition should ensure they have a sound understanding of their business and industry that is not limited to just the finance function. "If you start thinking from a company viewpoint, you will gradually make similar decisions to a CEO," she says.

Liew thinks CEOs who have previously been CFOs have the ability to drive significant growth. "I strongly believe a well-trained CFO has a powerful arsenal suited to handle the CEO job," he says. "Do not be afraid of making the wrong decision. Be bold, brave and confident."

Laura Leka

The Principal at the International Federation of Accountants' (IFAC) thought leadership team on how boards today are effectively discharging their responsibility for sustainability and environmental, social and governance (ESG) oversight

Board oversight of sustainability and ESG

The board of directors are ultimately accountable for the long-term success of an organization, and it is important as part of modern corporate governance to embed sustainability and ESG into decision-making and long-term growth strategies. Therefore, companies on a sustainability transformation journey need strong board leadership and members with adequate sustainability literacy.

How boards discharge responsibilities for sustainability and ESG oversight varies widely depending on the company, the industry, and the jurisdiction. With most boards around the world having at least one professional accountant board member, there is an enormous opportunity for the accounting profession to influence sustainable governance practices in boardrooms. An important responsibility for professional accounting organizations is supporting their members serving on boards to stay up to date with relevant developments in sustainability and ESG.

To explore current practices for overseeing ESG, IFAC's Professional Accountants in Business (PAIB) Advisory Group was recently joined by a panel of experienced board directors, Nancy Tse, Deputy Chair of the PAIB Advisory Group and an experienced board director herself, moderated the discussion between panellists, who included: Nicholas Allen, Independent Non-Executive Director, CLP Holdings Limited, and Chairman of Link REIT; Susan Angele, Senior Advisor, KPMG Board Leadership Centre; and Alan Johnson, Outgoing IFAC President, and Non-Executive Director at Imperial Brands plc, William Grant & Sons Ltd., and DS Smith plc. Some key learnings from the discussion include the following:

Incorporating sustainability and ESG into purpose and strategy is not a separate exercise

For a purpose-driven organization, its purpose and strategy are fundamentally based on doing the right thing for society and various stakeholders. With this premise, embedding sustainability and ESG is not done in isolation; it is a core part of how an organization responds to challenges, risks, and opportunities affecting value creation in the context of the needs and expectations of stakeholders, and in line with planetary boundaries. Sustainability and ESG affect all organizations of all sizes and across all industries and sectors, including the public sector, and accountants serving as board directors are at the centre of sustainability discussions.

Aligning sustainability and ESG priorities throughout the organization can be a challenge

A key challenge for boards is ensuring a common understanding of, and alignment on, sustainability and ESG priorities throughout the organization. Chief financial officers and finance functions have an important role to play in supporting the board by helping to break down organizational siloes and foster an integrated mindset to think, measure, manage and report in a more integrated manner.

Boards are focusing on the key metrics and KPIs

Companies are using various standards, reporting frameworks and metrics to measure and report on sustainability, but this can often result in much complexity. In the board's strategic capacity, using sustainability or ESG as a lens to think about strategy, risk and opportunity can help them to identify the five or six metrics that will focus their attention on key strategic issues making a real impact and that will align performance to sustainability targets and goals.

Many targets are longer-term. Therefore, it is important when setting targets to work backwards in shorter periods to effectively monitor goals over time against set milestones.

Ensuring an appropriate oversight structure

Individual companies decide (within any legal mandated requirements) the most appropriate board structure, the committees needed, and if and when the board delegates responsibilities to its sub-committees. Companies are increasingly evolving their committee structures and mandates to ensure effective oversight of ESG and sustainability. Approaches include the establishment of a dedicated sustainability committee or the incorporation of sustainability across the mandates of existing committees.

The most appropriate committee structure will depend on factors, such as the jurisdictional legal requirements and corporate governance codes; size and structure of the company; and complexity of sustainability and ESG risks in a particular industry.

Regardless of structure, boards must ensure minimal overlap or fragmentation of duties, while at the same time maintaining connectivity between committee agendas where relevant. They must ensure that the board is fully engaged in topics of importance. Having board members serve across more than one committee can be an effective way of achieving this.

Audit committees have an expanding role

Audit committees have an existing mandate to oversee high quality financial reporting and internal and external audit, and as such are well placed to expand on this by providing oversight of mandatory sustainability/ESG disclosures and related systems and internal controls; ensuring the financial impacts of material climate-related risks have been considered and, where appropriate, are reflected in the audited financial statements; ensuring the consistency of sustainability/ESG disclosures across general purpose financial reporting and other public disclosures; and overseeing sustainability/ESG assurance, including internal audit activities, as well as the appointment of external auditors and ESG assurance providers.

Board members must be well-versed in ESG matters

Many professional accountants serve on boards and must have adequate knowledge, awareness and literacy in the ESG issues relevant to the company and its industry. Although subject matter experts and advisors can be brought in where necessary, board members cannot be entirely reliant on outside expertise. Board members are responsible for ensuring they keep up to date with emerging issues and continually learn new areas relevant to their organization and industry.

OPPORTUNITY AMID CHANGE

A new chapter for the Institute has started, amid challenges such as the ongoing COVID-19 pandemic and opportunities such as the growing importance of sustainability in business. Institute President Loretta Fong talks to Jemelyn Yadao about how the Institute – in its redefined role – will ensure the profession continues to contribute to Hong Kong's success, and the opportunities for members in what she has coined the era of "Accounting^2"

Photography by Alex Leung

In 1972, after more than six years of planning, and driven by an increasing demand for trained accountants as Hong Kong was burgeoning, it was finally time to move ahead with legislation that would give a new body statutory powers to govern the city's accounting profession. The bill was debated in the second half of that year. Graham Sneath, the Hong Kong solicitor-general, told the Legislative Council: "The main purpose... is to establish in Hong Kong a society of accountants, and to give it statutory responsibility not only for maintaining a register of duly qualified accountants and for regulating their professional conduct and practice, but also for their training and examination."

On 1 January 1973, the Hong Kong Society of Accountants – now the Hong Kong Institute of CPAs – came into being. Fifty years on, the Institute's President Loretta Fong reflects on that long-standing purpose of the organization. "Our primary purpose is to train accountants and to contribute to society, not to discipline members," she says.

To Fong, it's an important reminder, particularly as the Institute's key roles and responsibilities have been brought into question amid the further reform of the regulatory regime of the profession. While the Institute's regulatory powers, including the issuance of practising certificates, have been transferred to the Accounting and Financial Reporting Council (AFRC), the Institute continues to shoulder the responsibility of registering CPAs, oversee the training and development of the accounting profession in Hong Kong through the Qualification Programme (QP) and continuing professional development (CPD) programme, as well as fulfil the crucial function of standard setting for the profession.

"There have been many times when people ask me, 'What is the Institute going to do after the reform?' I think the Institute has been overshadowed by its disciplinary power. People remember that it is a disciplinary body, but forget about all the good things the Institute is doing to contribute to society – how many younger generations of accountants we have trained, and how we have continuously played a supportive role in the growth of the Hong Kong economy and its capital market," says Fong.

Loretta Fong, President of the Hong Kong Institute of CPAs, is also ESG Services Leader at PwC Hong Kong.

The reform has only driven the Institute to redefine its role towards better serving its members, and the profession as a whole. This year, the Institute will continue working on meeting the objectives of its *Strategic Plan 2022*, which had been refocused around three key topics as part of its repositioning: "Delivering member value," "Proud to be a CPA," and "Advocacy for the profession."

Fong says the profession has navigated this significant paradigm shift as a collective. Throughout the journey of regulatory reform, effective member engagement has been critical in getting members up to speed with the changes to the legislation, and to relay their concerns to the government, she notes. Transitional arrangements ahead of the implementation of the new regime were also put in place. "The relevant members' information has been transferred to the AFRC in a secure and efficient way. From the initiation to the effective transfer, this has been done successfully in just four months," she says.

A meaningful role

The Institute has been spearheading climate and sustainability initiatives in the past year, and raising awareness on these topics within the profession. But moving forward, members can expect the Institute, in its redefined role, to go even further.

In May 2022, the Institute received confirmation from the Financial Services and the Treasury Bureau that the extant Professional Accountants Ordinance provides the statutory authority for the Institute to issue sustainability standards in Hong Kong. This is especially significant given the great anticipation towards the global baseline standards, which will be issued by the International Sustainability Standards Board (ISSB). "We've been given the green light from the government for us to set the sustainability standards here in Hong Kong," says Fong. "Localizing the ISSB standards would be a very important task for us." She adds that the Institute taking on the role of the local sustainability standards setter is only logical – it can leverage its experience and expertise in making international accounting standards suitable for Hong Kong-context.

After the ISSB issues its final standards, which are expected in early 2023, the Institute can then start to look into how to make the standards work for the Hong Kong market, says Fong. "If we're talking about using ISSB standards, how soon should we adopt them? Will certain industries start implementing first? Another thing to think about is whether and when private companies in Hong Kong should use that set of standards and with any modifications," notes Fong.

She highlights that the European Union's Corporate Sustainability Reporting Directive, passed last June, requires companies meeting certain thresholds to report on sustainability matters. "It is just the global trend that more sustainability data is demanded by the investment community."

Accounting²

As ESG Services Leader at PwC Hong Kong, Fong knows very well that environmental, social and governance (ESG) reporting is fast becoming an essential skill for accountants. She believes in the current and future opportunities for accountants to help companies

"[Sustainability] is a very big thing for the accounting profession. If we do this well, we can enhance the value of accountants to society."

successfully integrate sustainability into their operations and enhance transparency on sustainability. "[Sustainability] is a very big thing for the accounting profession. If we do this well, we can enhance the value of accountants to society."

Fong points out that accountants are used to using a general ledger to monitor a company's financial activity, and this experience will likely enable them to set up the internal control framework including systems for monitoring and reporting non-financial performance data, such as those related to ESG. "Most of the corporations currently do not have any robust system for capturing non-financial data such as carbon emissions, energy consumption, water usage, etc. A system allows the capturing of such data and appropriate internal control over the system is essential for ensuring that the data is correct. For financial data, the people doing this are accountants. Accountants can just apply those skill sets when it comes to non-financial data," she says.

Indeed, it is already the case in some companies whereby "ESG controllers" with accounting backgrounds have been appointed to impose the kinds of internal systems used to produce financial statements, reported the *Financial Times* recently. CPAs have been appointed to new ESG or

In May 2022, the Institute received confirmation from the Financial Services and the Treasury Bureau that the extant Professional Accountants Ordinance provides the statutory authority for the Institute to issue sustainability standards, paving the way for the Institute to become the local sustainability standard setter.

sustainability controller roles at the oil services company Halliburton and Google's parent company, Alphabet.

Fong often thinks about the intersection between accounting and sustainability, and describes integrated reporting as "Accounting^2." "It's not Accounting 2.0 because the relationship is not linear, it's multi-dimensional," she says. "You have the financial and non-financial factors. So when you do the assessment, you need to look at both axes. It's getting so complex that accountants, especially those who have been in the profession for around 20 years like me, know now that it's the time to step up their efforts to learn and change."

With career opportunities in sustainability for accountants to grasp, the Institute is focused on upskilling members and students with the necessary skills and knowledge, particularly through its CPD programme. "There's going to be a lot more focus on sustainability. While we have done a few courses on ESG last year, there are many courses on these topics outside of the Institute, so I think we need to think about how to do them better and in a more structured way," she says.

On the topic of CPD, Fong points out that the Institute revamped its Professional Development Strategy following its training needs analysis exercise last year, which found that training categorized by competencies is the most preferred among different member groups. The Institute, in response, enhanced its training by competencies structure for core subjects, including accounting hot topics, audit quality, ESG, ethics, integrity and professionalism, and valuation. "We redesigned the strategy so that members know which courses are suitable for their individual needs and capabilities," she explains. The Institute also recently launched two new training curriculums – one on digitalization and one on soft skills.

Fong adds that CPD courses have also been strategically split up into two groups: courses that cover more general topics, for example accounting updates and audit updates, offered at a reduced rate; and courses that focus on strengthening skills in specialist fields. "We also offer training courses for junior accountants, aimed at small firms that may not have the resources to run training programmes for new recruits," she says.

Supporting small- and medium-sized practitioners (SMPs) in carrying out digital transformation is particularly crucial. "SMPs say they're digitalizing audit work papers but there are so many service providers. So over the past year, we have been running webinars introducing them to the different products out there," says Fong.

Re-engineering the QP

Equipping members with the relevant skills and knowledge for a successful career is of the upmost importance to the Institute, so it has enhanced training in another way. The Institute is reviewing the QP to ensure the content remains effective in supporting student members' career advancement and meets the evolving market needs. Changes to the practical experience component of the QP have already been made. In December 2022, a revised Practical Experience Framework was launched with the aim of enhancing the flexibility of time requirements to suit different work

"I want society to remember that accountants have actually helped Hong Kong become the international financial centre it is today, and we continue to have a role in this."

environments; strengthening the quality assurance of the Authorized Employers and Authorized Supervisors system; and promoting communication and improving the transparency of practical experience documentation through a new dedicated online system.

Fong notes that the QP is also being re-engineered to better reflect what is expected of accountants today, by putting an emphasis on areas such as soft skills, digitalization, and specializations. "Because of the fact that there are so many different things that an accountant could focus on, I think we may put more effort into building up specializations," she says. "We have over 47,000 members, and around 90 percent of them are not practising accountants. Some are in corporate finance, some are working in consulting, and some are running operations in large organizations. Accounting is just the base of what you need in the business world."

With a great number of members already thriving in specialist fields as true "Accountants Plus," the Institute's strategy of communicating the message "Proud to be a CPA" is all about putting these CPAs under the spotlight and

Under the Institute's redefined role, Fong believes it is critical for the Institute to focus its efforts on supporting members for the betterment of the profession.

showing the public how accountants can succeed in the business world. Fong says that the Institute has recently launched a TV series in collaboration with ViuTV to promote the diverse careers open to those with a CPA qualification. "These are the sort of soft public advertisements that we are trying to do. I want society to remember that accountants have actually helped Hong Kong become the international financial centre it is today, and we continue to have a role in this.

Thriving amid change

With the Institute celebrating its 50th anniversary this year, Fong looks back at how far the Hong Kong profession has come and how the role of CPAs has evolved immensely. "At the time since we established in 1973, and into the 1980s for 20 years, many Chinese enterprises, including state-owned enterprises and entrepreneurs, were getting listed in Hong Kong which led to a big boom in Hong Kong's capital market, so there was an opportunity for accountants to play a key role here. That's why we trained accountants and continued to train so many over the last 50 years," she says. "At the same time, the profession has faced rapid changes."

She highlights the growing prevalence of digital transformation, sustainability and the ever-changing regulatory landscape as being some of the trends that have impacted the profession. "I remember when I was a student of the Institute, and I had a few small A5-sized red binders with all the audit and accounting standards. It's a very different world now." Fong encourages members to stay tuned for announcements on the Institute's 50th anniversary celebrations.

Despite the past year being full of changes, and the transition work on the new regulatory regime still being carried out, Fong is excited about this new era for the Institute. She believes that in its redefined role, the Institute is on track to achieving its strategic goals and will play an even bigger supportive role for members throughout their professional lives.

"Our success will depend on how others view the Institute. In the coming year, I hope our initiatives or changes that we make will attract more young talent, which we need for the profession to strive and grow. Seeing how 'Accounting^2' rolls out will be very exciting."

SECOND OPINIONS: IS EMBRACING SUSTAINABILITY AND GREEN FINANCE AN OPTION OR PREREQUISITE FOR CPAS?

TEDDY LIU
HEAD OF GROUP AUDIT AND MANAGEMENT SERVICES AT NEW WORLD DEVELOPMENT COMPANY LIMITED, AND INSTITUTE COUNCIL MEMBER

The answer is very obvious, as accountants are obliged to maximize the value for key stakeholders.

In the past, maximizing the value of a company's shareholders was believed to be the only goal. And as professional accountants, we would work to achieve this while adhering to the core values and basic principles of accountants including ethical conduct and diligence.

While the core values remain, some basic principles have evolved, driven by societal changes. With calls from renowned environmentalists like Rachel Carson, whose 1962 book *Silent Spring* brought environmental concerns to the public, businesses have been propelled to look beyond shareholders' value and interests.

With the world increasingly concerned about securing our collective sustainable future, given the impacts of climate change, acting on environmental, social and governance (ESG) matters has become a universal focal point and even more pressing for accountants. Indeed, "Triple Bottom Line" has now become part of everyday business language. It was coined by John Elkington in 1994 as a framework that examines a company's social, environmental and economic impact.

Also, in the United Nations' 2004 *Who Cares Wins* report, ESG is considered critical for achieving sustainable growth and boosting a company's competitiveness at a global level.

It's now recognized that a strong ESG proposition can create value for companies and their shareholders. As professional accountants, we are in the driver's seat helping steer businesses to create value for all stakeholders. As we work through and oversee the daily operations of a business, I believe we are obliged to ensure the sustainable development goals are realized.

> "As we work through and oversee the daily operations of a business, I believe we are obliged to ensure the sustainable development goals are realized."

The end goal of achieving sustainable development is easier said than done. To achieve the global target of net zero emissions by 2050, companies are urged to set in motion initiatives to reduce carbon emissions in their daily operations – from what we use for generating energy, to what we buy, how we produce, to what we produce to meet customers' needs. All of these should be monitored and companies need to hold themselves accountable for their ESG performance.

If manufacturers, for example, are required to take care of the ultimate disposal of their products after their life-cycle, what things should they consider before they start producing? As accountants, we are obliged to give our advice, help draft strategies, set forth measurable targets, keep track of progress and report in a timely manner on ESG performance at all times so as to help maximize the values for our stakeholders.

I firmly believe that sustainability is not an option for CPAs but a commitment that comes with the job.

ATHENA NG
GENERAL MANAGER, CORPORATE FINANCE AND CORPORATE COMMUNICATIONS DEPARTMENTS, AT CHINA OVERSEAS LAND AND INVESTMENT LIMITED, AND AN INSTITUTE MEMBER

From both a reporting and fundraising perspective, embracing sustainability, or more specifically ESG, and green finance, is no longer an option but a prerequisite for CPAs.

Sustainability, which has a broader stakeholder focus, has been defined by the United Nations Brundtland Commission in 1987 as "meeting the needs of the present without compromising the ability of future generations to meet their own needs." Institutional investors are increasingly calling for quality, transparent, reliable and comparable reporting by companies on ESG matters.

While financial reporting focuses on financial materiality, the concept of double materiality extends beyond financial materiality (the outside world's impact on the company) to include environmental and social materiality (how a company impacts the outside world). With the creation of the International Sustainability Standards Board (ISSB) under the IFRS Foundation, companies may soon follow a set of comprehensive, global sustainability-related disclosure standards. Accountants must understand sustainability from a reporting perspective as ISSB and the International Accounting Standards Board (IASB) are working together to ensure connectivity and comparability between the two standards. In addition, ISSB and IASB will utilize principles and concepts from the Integrated Reporting Framework in their standard-setting work.

From a fundraising perspective, green, social and sustainability-linked bond issuance is a fast-growing market. The market size totalled US$983 billion in 2021, which increased 91.6 percent from US$513 billion in 2020, according to Bloomberg data. In addition, Principles for Responsible Investment (PRI) is a United Nations-supported international network of financial institutions working together to implement its six aspirational principles to incorporate ESG issues into investment practices. Accountants who are in fundraising or investor relations roles should expect investors to increasingly focus on ESG-related issues.

"Accountants who are in fundraising or investor relations roles should expect investors to increasingly focus on ESG-related issues."

A sustainability-linked bond issuance can demonstrate a company's commitment to ESG performance and practices to the capital markets. As such, investors may be willing to pay a green premium or "greenium" for an issuer's bonds, i.e. a higher price and thus reducing the yield of a company's bonds. Therefore, a company may be able to achieve lower financing costs and capitalize on its efforts on sustainability practices.

CARRIE NG
HEAD OF SUSTAINABLE FINANCE, COMMERCIAL BANKING, THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED

The transition to net zero touches everyone and every single part of the economy, and we all have to take action. CPAs are a key piece of the puzzle in the ESG ecosystem that is composed of regulators, businesses, non-governmental organizations, banks, other professional services firms, and more.

As corporations become more and more mindful of the pivotal role they play in decarbonization, they are increasingly embedding environmental action into their core strategies to protect the planet as well as safeguard their own profitability. CPAs have an important role to play to help companies and individuals achieve their ESG ambitions.

ESG is key to long-term competitiveness and growth for businesses, and CPAs are well-positioned to help companies along their ESG journey. They can help businesses evaluate where they stand when it comes to sustainability, and more importantly aid clients in embarking their journey in disclosure, making ESG reporting more accessible. Especially as the current rules and regulations on ESG compliance and reporting are not yet standardized, CPAs are in a unique position to help businesses navigate this ever-evolving landscape by providing direction and guidance. Disclosure is a key milestone for any company in its ESG journey, and the more businesses disclose, the more it can enable and encourage the wider economy to decarbonize. As businesses continue to embed sustainability targets in their day-to-day operations, CPAs can also help ensure and maintain the robustness of such data points around sustainability metrics, which are sometimes tied to financial products such as sustainability-linked loans.

"CPAs are in a unique position to help businesses navigate this ever-evolving landscape by providing direction and guidance."

In the particular case of small businesses, as they work toward reducing their carbon footprint, they are facing several challenges – ranging from limited access to financial and technological resources to a lack of knowledge and information when it comes to execution. They often look to trusted partners for their knowledge, advice, and networks with regards to sustainability, and CPAs will be considered as one of such partners who small businesses can seek help from.

In Hong Kong, 98 percent of business establishments are small- and medium-sized enterprises (SMEs) and they employ 45 percent of the private sector workforce, according to government statistics. SMEs, therefore, have an important part to play in helping Hong Kong meet its carbon neutrality target. We need to help this important segment of the business population to transition, and for CPAs, this is not only a responsibility as a global citizen, but also a business opportunity.

FIVE QUESTIONS FOR PAIB

Brion Shum

Director of Treasury and Finance Department for ABC International Holdings Limited, the investment banking business flagship of Agricultural Bank of China Limited, and Institute member, on how treasury professionals should be preparing for the challenges this year

What are the biggest lessons in your career so far? The first is that ambition drives passion and personal development. The traditional treasury role focuses on liquidity and capital management. But I'm always happy to adopt new ideas and methods, such as new technologies that not only meet the company's return objectives but also enhance my career passion. Secondly, working parties within a company, especially a regulated financial institution, tend to have contradicting views in the decision-making process. Ensuring my colleagues' views are considered is a must for "balanced" decision making. Lastly, communicating well with stakeholders requires a high skillset, patience and practice. Communicating in different scenarios with different people is one of the most interesting parts of a career in treasury.

What do you like most about specializing in investment banking capital management? Unlike traditional commercial banks, high-volume routine transactions and capital management in investment banks focus on project finance arrangements. Investment banks serve both institutional clients and in-house investment project needs, in which we provide tailor-made capital solutions. Also, as large-size transactions are not always done by a single company, we work with other professionals to deliver the best capital solution or meet in-house capital needs.

In what ways has your CPA qualification helped you in your career? The CPA qualification was essential for building up my career. The Qualification Programme offered me a good transition from being a person with a pure finance background to an audit and accounting professional, which then opened doors to a wide range of industries and business functions. These valuable opportunities ultimately helped me develop my career in the investment banking and treasury fields.

How are you navigating the current volatile environment? More interest rate rises are expected in 2023. With treasury management now more challenging, it is essential to keep updating or refining tools and strategies in order to catch up with the market rhythm. Hybrid-use of different financial instruments, such as a mix of tenor contracts, prepayment loans and repurchase agreements, can improve the matching of cash flow duration and risk. Also, actively managing the liquidity portfolio based on timely updates on the industry and global market is important. People interpret interest rates as a forward-looking expectation of the market economy, therefore a treasury manager should make use of his or her forward-looking mindset to manage treasury portfolios.

What is your advice for those wanting to move from accounting to investment banking? Moving from a Big Four firm to investment banking, the most challenging part for me was the mindset adjustment. While audit and accounting focuses on the numbers and financial forecasting for the business plan, the middle office of an investment bank is a totally different story. It is more focused on value adding in a fast-pace and dynamic environment, and people within the industry actively bring efficiency in order to achieve the client's return objectives. Because of this, it's important to always have a "can-do" attitude and strong problem-solving skills.

FIVE QUESTIONS FOR PAIP

Sky Yuen

Director, Technical and Regulatory at Baker Tilly Hong Kong, and Institute member, on how specializing in technical accounting has deepened his business sense, and his views on the upcoming sustainability disclosure standards

What are the three biggest lessons in your career so far? I have learned how important it is to be a team player at work. It isn't always possible to complete tasks on my own, and in fact what leads to the successful completion of tasks is being open to working with others who specialize in various areas. Moreover, I have learned how to work with others so that tasks can be accomplished efficiently and effectively, which relates to the two other biggest lessons – don't hesitate to communicate with others, and focus on the development and utilization of my strengths. I've been able to achieve success particularly when my team members and I communicated well with each other and made use of our individual strengths.

What do you like most about specializing in technical accounting and financial reporting? It enables me to deal with various types of technical issues that come up in different industries and businesses. In tackling these issues, I direct audit teams to obtain reasonable assurance in an appropriate way so that the financial statements give a true and fair view of the financial performance and financial position of entities in accordance with financial reporting requirements. Through this experience, I get to have a close look at various corporate practices, and in the process strengthen my business sense.

In what ways has your CPA qualification helped you in your career? Accounting skills and knowledge are fundamental in the business world for understanding the financial impact of every circumstance that may affect various stakeholders' decisions. Besides that, a good understanding of regulatory updates allows me to know the best practices and how to measure business performance. Last but not least, problem-solving and networking skills are essential when engaging in all sectors and business fields as these skills help me cope with complex business matters, and maintain great relationships with people.

What challenges do you foresee in the implementation of the IFRS Sustainability Disclosure Standards? I anticipate that there will be application difficulties, especially for small- and medium-sized entities (SMEs) as they may not be able to put sufficient effort in environmental, social and governance-related policies and measures in their operations. I believe that the industry-based topics and associated metrics would be a useful guide in helping those entities to apply the standards for the first time. Regulators, whether it's the International Sustainability Standards Board or local ones, could establish implementation guides, and constitute focus groups inviting stakeholders from SMEs in various industries to understand their difficulties and to provide opportunities for open discussions on resolving difficulties.

Which out of the standards that will be effective in 2023 are currently top of mind for you? Amendments to IAS/HKAS 1 *Presentation of Financial Statements*, relating to classification of liabilities as current or non-current, is top of my mind as the amendments would have an impact on most entities' financial statements. Entities would need to revisit the conditions of their liabilities instead of management's intentions or expectations, especially their borrowings and rights to defer settlement, at the end of the reporting period when assessing whether the liabilities should be classified as current or non-current in the statement of financial position. The outcome may affect financial ratios.

Refresher on CPD requirements

An overview of the continuing professional development requirements for Institute members and the relevant learning activities

Continuing professional development (CPD) is one of the statutory requirements for membership renewal. It is intended to develop and maintain necessary professional competence of Hong Kong Institute of CPAs members to perform their roles as CPAs throughout their career and thereby strengthen public confidence and trust in the profession.

The Institute conducts CPD compliance audit every year by audit sampling. Theoretically, every member is subject to the audit and members may be selected for audit on a risk-based process. This year, the timing of the CPD compliance audit has been moved forward to closely follow the CPD declaration for membership renewal. The selected members who are responsible persons of public interest entity auditors are required to respond by January 2023. The CPD compliance audit for the general membership will also commence in the first quarter of 2023. This article aims to refresh your understanding of CPD requirements and help you pass the audit with flying colours.

According to Statement 1.500 *Continuing Professional Development* of the *Members' Handbook*, all members are required to:

- Complete at least 120 hours of relevant professional development activity in each rolling three-year period, of which 60 hours shall be verifiable;
- Complete at least 20 CPD hours of relevant professional development activity in each year;
- Measure learning activities to meet the above requirements; and
- Maintain appropriate records of all CPD activities completed in each rolling three-year period.

What is a rolling three-year period?

The Institute adopts a rolling three-year reporting cycle, which allows more flexibility for members to earn their CPD hours. CPD reporting cycles commence on 1 December each year. For example, if a member joined the Institute in year 2019, his/her first rolling three-year period would be from 1 December 2019 to 30 November 2022, and the second cycle would be from 1 December 2020 to 30 November 2023 and so on.

What are relevant CPD activities?

The cardinal principle of considering "what are relevant CPD activities" is whether such activities are closely aligned with the responsibilities of a member's role and help to develop and maintain the professional competence necessary to perform that role. These learning activities should develop and maintain members' professional competence necessary to perform their roles as CPAs.

CPD includes learning and development activities that are relevant to the roles of members, such as (a) education; (b) training; (c) practical experience; (d) mentoring and coaching; (e) networking; (f) observation, feedback, and reflective activities; and (g) self-development activities.

Such learning activities should maintain, deepen and extend their professional knowledge, skills and values, and should be relevant to the individual member's work, professional responsibilities, helping them to enhance their understanding of the economic trends and environment in which they are working as a CPA. Learning activities to improve business skills, such as leadership, negotiation, management and presentation skills can also be recognized as relevant CPD activities. In selecting the relevant CPD activities, there is no limitation on the service provider and no territorial boundaries.

However, if you are applying your existing professional knowledge and skills, such as performing daily job duties, you should not recognize these activities as relevant CPD activities because there is no learning involved.

Verifiable vs. non-verifiable CPD activities?

Verifiable CPD activities can be objectively verified by a competent source, which can demonstrate that the specified number of hours of learning and development activity has been undertaken.

The following examples represent verifiable evidence that could be used to demonstrate that the specified number of hours of learning and development activity has been undertaken:

- Course outlines, teaching materials, storyboards;
- Confirmation by a provider, instructor, employer, mentor, or tutor that a learning and development activity has been completed;
- Transcript, examination result slips;
- Independent assessments that a learning activity has occurred;
- Confirmation by organizers of participation in activities where learning outcomes have been achieved;
- Confirmation by an employer of participation in an in-house programme;

- Confirmation by organizers of seminar/talks in which one was engaged as a speaker; and
- Publication of a professional article or of the results of a research project.

Non-verifiable CPD activities have no evidence to substantiate the CPD hours claimed. One example of a non-verifiable activity is reading professional journals including *A Plus* magazine.

How long do I need to maintain the records and documentary evidence to support my attendance and completion of CPD activities?

Records and documentary evidence should be maintained to support members' attendance or completion of CPD activities for a minimum of five years. You should be able to produce such records and documentary evidence if you are selected for an audit conducted by the Institute.

The Institute has adopted a more stringent approach in the CPD compliance audit since 2022, in line with increased regulatory expectations. Members selected for the audit will be required to provide (i) supporting documents for all of their verifiable CPD activities and (ii) a statement on the relevancy of the CPD activities. You may find a sample of a CPD record form on the Institute's website.

Test your knowledge

Now that you're better acquainted with the CPD requirements, can you find the issues in the following cases?

Case 1: Member A recorded 40 hours for the preparation of financial statements for the company that he worked for, and 20 hours for his presentation in the monthly departmental meetings as CPD activities.

Answer: These activities cannot be counted as CPD activities, whether verifiable or non-verifiable, because carrying out daily duties is applying existing professional knowledge and skills in the workplace. It is not aimed at developing and maintaining the professional competence of a CPA.

Case 2: Member B spent 15 minutes every day reading a financial newspaper. He recorded 80 hours of reading financial newspapers as a non-verifiable CPD activity.

Answer: Reading financial newspapers can be counted as a non-verifiable CPD activity. However, the maximum CPD hours that can be claimed for reading financial newspapers are five hours per year. You may find the summary of CPD activities with capped CPD hours under the FAQs on CPD requirements on the Institute's website.

Case 3: Member C kept registration emails as supporting documents for his verifiable CPD activities.

Answer: Registration emails can only show that the member had signed up for the CPD activities but cannot demonstrate that a specified number of hours of learning and development activity has been undertaken. Certificate of completion or confirmation of attendance would be an acceptable supporting document in the scenario.

Case 4: Member D attended yoga classes and talks relating to the use of Chinese medicine to keep good health, and recorded 40 hours as CPD activities.

Answer: These events do not relate to the enhancement of members' skills as a professional accountant. The Institute does not grant CPD hours for attending these events.

CPD is important for Institute members as CPAs to maintain and enhance their professional competence. It is also crucial to the society at large that CPAs have the technical knowledge and professional skills required to perform their roles.
We hope this article refreshes your understanding of the CPD requirements. We look forward seeing you at the Institute's professional development courses. Happy learning!

This article is contributed by the Membership and Admission Department of the Institute.

Reconnect and renew: a summary of the Institute's budget recommendations

The Institute's recommendations for the 2023-24 Budget to help Hong Kong re-establish itself as one of the best places in the world to live, work and visit

After around three years in which the pandemic held sway, most governments have now moved towards a policy of "living with COVID," on the basis that the virus cannot be completely eliminated, and given more widely available vaccines and quite extensive immunity within communities where the pandemic was widespread, its impact has reduced substantially. While many governments are trying to capture opportunities in the post-COVID recovery period, the world is facing other major challenges. Among these are inflation, due mainly to supply chain disruption and increased energy prices, resulting from the conflict in Ukraine, among other factors, rising interest rates, aimed at curbing the inflation, as well as increased government debt, following the large-scale subsidies handed out during the worst period of COVID.

Hong Kong has maintained some pandemic-related restrictions, after suffering its most severe wave in early 2022, having been relatively unscathed before that, and Mainland China and Macau had maintained more restrictive policies until late December 2022, which made travel between Hong Kong, the Mainland and Macau difficult. While Hong Kong has gradually relaxed most restrictions for visitors and has begun to open up for major international events, the rising tide of uncertainties in the global economy, the United States-China tensions and geopolitical conflicts, on top of internal constraints, such as the "brain drain," low birth rate, weak markets and the housing shortage, continue to affect Hong Kong's economy and confidence, delaying the return of the "feel good factor."

In addition, business leaders have concerns that Hong Kong has been losing its competitiveness due to the reduced international connectivity over the past three years and some of the business lost may not return in the foreseeable future. The situation is exacerbated by the outflow of productive members of the workforce over the past couple of years.

While economic activities in Hong Kong are recovering gradually, the Hong Kong Institute of CPAs estimates that the deficit for 2022/23 will reach around HK$114 billion. Fiscal reserves are expected to stand at HK$843 billion, equivalent to 12 to 13 months of government expenditure, at the end of March 2023.

To help address the issues, Hong Kong badly needs a "shot in the arm" to regain its vibrancy and attractiveness to overseas investors. A major international financial and investment summit was successfully held in November 2022 and, following that, the international Rugby Sevens tournament took place for the first time since 2019. These are certainly positive signs, but more needs to be done. The time is right for the government to review Hong Kong's investment promotion strategies, tax policies and overall competitiveness to enable Hong Kong to reconnect with the other parts of the world, as well as reinvigorate its status as a leading international financial centre.

Against this background, in January, the Institute submitted its Tax policy and budget proposals 2023-24 to the Financial Secretary for consideration in the 2023-24 Budget. Under the overall title, "Reconnect & Renew," it contains a range of recommendations covering three main areas: 1) reinforcing Hong Kong's international status and competitiveness; 2) making Hong Kong a more livable city and community measures; and 3) measures to achieve carbon neutrality and sustainability goals.

Reinforcing Hong Kong's international status and competitiveness

With keen global competition in the post-COVID-19 era, Hong Kong should keep up the efforts to reinforce its traditional competitive advantages, which include a favourable business environment, sound legal system, free flow of capital, advantageous geographical location, wealth of experience as a "connector" between the Mainland and the international community, and its long-standing reputation as an international financial centre.

In the meantime, Hong Kong is facing fierce competition in the global push for talent. The need for talent is acutely felt across all fields – from finance, technology to the creative industries. The pandemic, emigration, the ageing population and other factors have caused manpower shortages in many traditional and emerging industries. In order for Hong Kong to attract overseas talent, fully reopening the city's borders and restoring normality is only a precondition. The government needs to examine the underlying causes of the brain drain and to formulate a comprehensive policy for attracting and retaining talent. In addition to monetary incentives, promoting a better living and working environment, and providing greater tax certainty, should also be on the agenda.

Given the labour shortages in Hong Kong, unemployment is expected to remain low, but there is also a degree of mismatch between the skills required for the future and those available in the labour force, so providing opportunities for upskilling and retraining will remain important.

The Institute makes four sets of recommendations to help reinforce Hong Kong's international status and competitiveness: 1) enhance Hong Kong's competitiveness and attract overseas investment, which mainly includes measures to attract and retain talent, and promote innovation and technology, research and development, and intellectual property development in Hong Kong; 2) help the workforce to upgrade their skill sets; 3) continue to promote digital transformation; and 4) provide greater tax certainty and review Hong Kong's tax system.

Making Hong Kong a more livable city and community measures

Hong Kong's healthcare system has a good reputation and is known for its quality, efficiency and coverage of the community. However, the very long waiting times for booking for stable new cases, as well as the overwhelmed capacity of public hospitals during COVID-19, have revealed the acute manpower shortage in Hong Kong's public hospitals. This, coupled with the loss of experienced personnel and the ageing population, means that the public healthcare sector is expected to be overstretched and overcrowded in the foreseeable future. To reduce the burden on the system, we recommend that the government encourage people to adopt a more active and healthy lifestyle, while promoting a more efficient utilization of both public and private healthcare services through appropriate tax incentives.

As long as the local COVID situation remains under control, with the government's support, domestic economic activities are expected to revive further. To help overcome the challenges until the recovery is fully under way, the government should continue to provide some targeted support and relief measures to businesses and individuals. With very substantial electricity price increases announced in November 2022, resulting from a number of factors, including the ongoing conflict in Ukraine, one area of support that may need to be offered is electricity subsidies, at least for low income consumers; but along with these, it will be important to promote energy conservation.

The Institute makes four broad proposals, encompassing a number of specific recommendations, in relation to making Hong Kong a more livable city and community measures: 1) encourage people to adopt a more active and healthy lifestyle and reduce the burden on the public healthcare system, with additional tax incentives; 2) offer support for organizing international arts, culture and sports events, as well as fostering local arts and culture development, and encourage good use of the new harbourfront promenades for leisure and tourism; 3) community relief measures, including providing electricity subsidies; and 4) review and rationalize the personal allowances and encourage saving for retirement.

Measures to achieve carbon neutrality and sustainability goals

Hong Kong's Chief Executive is committed to achieving carbon neutrality by 2050. The Environment Bureau (renamed as the Environment and Ecology Bureau) released Hong Kong's Climate Action Plan 2050, on 8 October 2021, setting out the vision of "Zero-carbon Emissions • Liveable City • Sustainable Development," and outlining the strategies and targets for combating climate change and achieving carbon neutrality, together with certain quantitative targets. We support Hong Kong's efforts to achieve carbon neutrality by 2050 and we are committed to helping the business community here to adopt international sustainability reporting standards, as and when they are promulgated. The government and regulators, as well as relevant industry organizations, should continue to promote sustainability to the public and businesses, and drive and enforce the related regulations to enhance corporate sustainability performance and disclosure.

The Institute is expected to become the local standard setter for international sustainability reporting standards in Hong Kong, building on its experience and well-developed infrastructure as the standard setter for financial reporting, auditing and ethical standards. The Institute will then be committed to ensuring that members are up to speed with corporate sustainability disclosure and reporting standards, both from the preparers' and the assurers' perspectives. As regards assurance, in December 2020, the Institute issued guidance to members on the assurance of ESG reporting, which has since been further updated.

The Institute puts forward two groups of proposals in this area, including: 1) general policies to promote sustainability in Hong Kong; and 2) specific measures in relation to green buildings, electric vehicles and green finance. The latter include measures on incentivizing developers to construct more energy-efficient buildings and to further encourage the trend towards electric vehicles.

The Institute believes the recommendations proposed in its submission to the government can help Hong Kong to re-establish itself in the post-pandemic era as one of the best places in the world to live, work and visit. Financial Secretary Paul Chan will deliver the 2023-24 Hong Kong Budget Speech on 22 February, outlining the government's short-, medium- and long-term plans for Hong Kong. It is expected that he will announce measures to help reinforce Hong Kong's international status and facilitate post-COVID recovery.

This article is contributed by the Advocacy and Practice Development Department of the Institute.

TECHNICAL NEWS

The latest standards and technical development highlights

Financial reporting

List of new and amended HKFRS
The Institute has published the list of amended Hong Kong Financial Reporting Standards (HKFRS) that are applicable to December 2022 year-end.

IASB December 2022 podcast and update
The International Accounting Standards Board (IASB) podcast, with its chair and executive technical director highlighting the projects discussed during its December meeting, and a summary of the December meeting, are now available.

IASB Chair Andreas Barckow discusses IFRS 17 becoming effective from 1 January 2023
The IASB has published a short video to remind stakeholders that International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* applies to companies with annual reporting periods beginning on or after 1 January 2023.

December 2022 *IFRS for SMEs Accounting Standard Update*
This edition of the *IFRS for SMEs Accounting Standard Update* includes frequently asked questions on the proposals in the Exposure Draft (ED) *Third edition of the IFRS for SMEs Accounting Standard*; a list of newly available resources to support the consultation on the ED; and guidance on how to get involved in the consultation.

IASB publishes its review of classification and measurement requirements relating to financial instruments
The IASB has published its project report and feedback statement concluding the post-implementation review (PIR) of the classification and measurement requirements in IFRS 9 *Financial Instruments*. Feedback from stakeholders and research undertaken as part of the PIR show that the requirements set out in IFRS 9 are working as intended and provide useful information to users of financial statements. In response to feedback, the IASB has also identified areas for research and standard-setting to further enhance information provided to users of financial statements.

Call for papers on hedge accounting requirements of financial instruments accounting standard
The IASB and *Accounting & Finance* journal have announced a call for research papers on the application and impact of hedge accounting requirements in IFRS 9 and new disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* related to this. The IASB is seeking evidence about: whether the requirements are working as intended; any important or contentious issues that have come to the attention of the IASB; and any unexpected costs or implementation issues. Papers should be submitted via the online system by 1 September 2023.

Auditing and assurance

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 the approach to risk identification and assessment which will have far-reaching effects for firms of all sizes.

The following resources provide tips and support for the implementation of HKSA 315 (Revised 2019):

- The Institute's *Audit Practice Manual (2022 edition)* has been updated to address the new and revised requirements of HKSA 315 (Revised 2019).
- The Institute's archived e-learning course on HKSA 315 (Revised 2019) provides a deep dive into the new and revised requirements and discusses their implementation within auditing.
- CPA Canada's publication *Briefing for management and those charged with governance* assists practitioners to explain the changes to their audit clients.

The risk identification and assessment process: Tips on implementing ISA 315 (Revised 2019)
This new implementation tool by the International Federation of Accountants (IFAC) helps auditors implement International Standard on Auditing (ISA) 315 (Revised 2019). It provides an overview of core concepts and explains new and previously existing requirements of ISA 315 (Revised 2019). It also includes examples and emphasizes the scalability of the standard with a focus on less complex entities.

Quality management and group audits: Highlighting certain aspects of interaction between ISA 220 (Revised) and ISA 600
The International Auditing and Assurance Standards Board's (IAASB) fact sheet focuses on the interactions between ISA 220 (Revised) on quality management at the engagement level and ISA 600 on group audits. It highlights aspects of a group audit that may be affected by ISA 220 (Revised) and International Standard on Quality Management 1. This includes the revised definition of engagement team and leadership and direction, supervision, and review responsibilities. This fact sheet is particularly useful for group audits in which component auditors are involved.

2021 IAASB Handbook
The 2021 edition of the *Handbook of the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* is now available. It replaces the 2020 edition and incorporates the following that are effective for audits of financial statements for periods beginning on or after 15 December 2021.

- ISA 315 (Revised 2019) *Identifying*

and Assessing the Risks of Material Misstatement, which replaces ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.
- Conforming and consequential amendments from ISA 315 (Revised 2019) in other relevant standards.

Ethics

Revised non-assurance services and fee-related provisions
The revised non-assurance services and fee-related provisions of the *Code of Ethics for Professional Accountants* significantly strengthen the guardrails around auditor independence in two important areas that have the potential to create incentives influencing auditor behaviour — non-assurance services (NAS) provided to audit clients and fees. The revisions are effective for periods beginning on or after 15 December 2022; otherwise, they are effective as of 15 December 2022.

The following resources provide tips and support for the implementation of the revision:
- The Institute's updated *Ethics Circular 1* has incorporated the new and revised NAS provisions aiming at providing guidance to small and medium practitioners including sole practitioners, on their application of the Code to certain NAS and other topical issues.
- The Institute's archived e-learning course, titled "Revised non-assurance services and fee-related provisions of the Code of Ethics for Professional Accountants," provides an overview of the revisions and a deep dive into areas such as the new self-review threat prohibition for public interest entities audit clients; self-interest threats created by fees paid by an audit client; strengthened provisions regarding relative size of fees to the firm from a particular audit client, etc.

Forthcoming key changes to the IESBA Code
One of the IFAC's three strategic objectives is "Contributing to and promoting the development, adoption, and implementation of high-quality international standards." This IFAC article summarizes the forthcoming key changes to the International Ethics Standards Board for Accountants' (IESBA) Code, focused on those which came into effect from 15 December 2022.

Sustainability

ISSB announces guidance and reliefs to support Scope 3 GHG emission disclosures
The International Sustainability Standards Board (ISSB) has set out a series of guidance and reliefs to support those applying the requirement within its Climate-related Disclosures Standard (S2) to disclose Scope 3 greenhouse gas (GHG) emissions when material for a company. The guidance and reliefs are designed to help companies embed and improve their processes for measurement and disclosure of Scope 3 GHG emissions.

ISSB Update December 2022
The ISSB *Update* provides a summary of discussions at its 13-15 December meeting.

Inaugural membership of Sustainability Standards Advisory Forum announced
Thirteen representatives of jurisdictions and regions from around the world will come together to form a Sustainability Standards Advisory Forum (SSAF), that will work with the ISSB towards a comprehensive global baseline of sustainability-related disclosure for capital markets. The SSAF has been established to formalize and streamline the ISSB's engagement with jurisdictional and regional bodies to ensure that a broad range of national and regional input on major technical issues related to the ISSB's standard-setting are discussed and considered.

IFRS Foundation and MoF China sign an MoU to establish an ISSB office in Beijing
On 29 December 2022, the Trustees of the IFRS Foundation signed a Memorandum of Understanding (MoU) with the Ministry of Finance (MoF) of China to establish a Beijing office of the IFRS Foundation. The MoU is effective for an initial three-year period.

IFAC report – *Professional Accountants as Finance and Business Leaders*
IFAC published a report, *Professional Accountants as Finance and Business Leaders*, which summarizes the key insights and learnings from the September 2022 meeting of its Professional Accountants in Business (PAIB) Advisory Group. The discussions consider key trends impacting business and public sector organizations globally, and cover the key roles of PAIBs in:
- Driving sustainable value creation through an integrated mindset, with a case study on Natura & Co.;
- Corporate governance and oversight of sustainability, and environmental, social and governance matters;
- Sustainable financing;
- Digitalization of finance and accounting, with a case study on Procter & Gamble; and
- The growing B-Corps movement.

Corporate finance

Institute submission on HKEX's consultation on Listing Regime for Specialist Technology Companies
The Institute issued a submission in response to the consultation paper issued by the Hong Kong Stock Exchange (HKEX) seeking feedback on proposed new listing rules for Specialist Technology Companies (STCs).

In general, the Institute does not have strong views on whether to introduce a new listing regime to accommodate the listing of the STCs. However, investors, especially retail investors, could be subject to high risk when investing in STCs. Hence, from an investor protection perspective, we suggest that HKEX needs to introduce additional corporate governance requirements on STCs, especially for Pre-Commercial Companies. Refer to the Institute's submission for details.

Legislation and other initiatives

Anti-money laundering (AML) notices
The United Nations Sanctions (Central African Republic) Regulation 2020 (Amendment) Regulation 2022 and the United Nations Sanctions (Mali) Regulation 2019 (Amendment) Regulation 2022 were gazetted on 23 December 2022.

Members should refer regularly to the Institute's AML webpage for useful documents and guidance.

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

AMY CHAN

Senior Accountant at Shangri-La Asia Limited

Photography by Anthony Tung

Amy Chan, Senior Accountant at multinational hospitality company Shangri-La Asia Limited, tells *A Plus* about her role in implementing an automation system, and why she believes adaptability is a must-have trait both in the hospitality sector and as an accountant

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

As a senior accountant at the headquarters of Shangri-La Group, which owns and manages more than 100 hotels globally in 78 destinations under the Shangri-La, Kerry, JEN, and Traders brands, I am responsible for the financial results of hotels worldwide and management hotels, and providing information on group financial performance for stakeholders. I also work closely with the local accounting team to examine cross-country issues, and make sure financial reports are consistent with the group accounting policy, fully integrated with group assumptions, as well as compliant with Hong Kong statutory requirements. Over the last three years at Shangri-La, I established a good understanding of my duties and developed in-depth knowledge in financial reporting. I have also dealt with the accounting frameworks of different countries, and have become more familiar with the hospitality industry through reviewing management reports from regional hotels.

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

I would say the most challenging aspects of my role are also the most rewarding. Since the end of 2019, our group has been implementing a new system to smoothen the consolidation process, however soon after we started, the COVID-19 pandemic had spread around the world. I had to learn and study a totally new system and test the system results without missing the reporting deadline. At the same time, some of the regional hotels and shared service centres had been locked down due to the pandemic, making it difficult for me to liaise with them. I was recognized for catering for their specific needs with flexible office hours and delivering appropriate treatment and clarifications directly to the end users, which are the regional hotels and reporting teams. Developing a closer connection with my colleagues in different parts of the world during the pandemic was also rewarding and heartwarming – we constantly reminded each other to take care of ourselves.

What inspired you to become an accountant?

Accountants look professional! That was the first impression I had after finding out as a little girl that my neighbour was an accountant, and I saw him wearing a full suit. After getting introduced to the basics at school, like debit and credit, and finding these concepts of accounting easy to understand, I became more interested in the subject. I also understood that there are different career paths to be taken as an accountant, and I would have the opportunity to try these different paths and discover what would be right or suitable for me. It's also well-known that job prospects for accountants are strong as there is always a need for an accountant no matter the size of a business, and how good or bad the financial environment is.

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

Respond quickly, be adaptable and always think ahead in today's ever-changing environment – these are the biggest lessons I have learned. After the COVID-19 outbreak, many industries turned to greater use of automation technology. In the accounting profession, artificial intelligence, cloud computing and automation adoption are among the biggest trends nowadays. The consolidation system rolled out in my company is an example of how we aimed to reduce manual work from the consolidation process so that we could focus more on analysing the group financial performance. Other than that, with recent rising interest rates, I have witnessed how our management kept an eye on monetary market trends and took appropriate actions to minimize the potential risks. It's a reminder for me to stay open to learning new skills, and to act promptly and proactively when encountering any big changes or challenging situation.

How do you think the Qualification Programme (QP) has helped you in your career so far?

I started my career doing book-keeping at a trading company and then became an external auditor at a CPA firm, before specializing in financial reporting. The QP equipped me to work effectively in different areas in accounting through the programme's four main modules, namely financial reporting, business finance, business assurance and taxation. The real-life Hong Kong-focused case studies used in the QP really solidified my accounting knowledge and helped me to apply this knowledge to my work in Hong Kong. I'm able to maintain my professional knowledge through attending webinars or workshops held by professional bodies, including the Institute's continuing professional development progamme.

Greenwash prevention – Why it matters and how to address it

Grace Hui, Convenor of the Institute's Greenwash Prevention Working Group, moderates an e-Seminar covering corporate greenwashing and what can be done to combat it

Grace Hui, Convenor of the Greenwash Prevention Working Group of the Institute's Sustainability Committee, has more than 20 years of international and domestic banking and finance industry experience. She is an Adjunct Professor in the Division of Environment and Sustainability of The Hong Kong University of Science and Technology. She is also an honorary advisor to the Accounting and Financial Reporting Council (AFRC), a member of both the AFRC's Inspection Committee, and Sustainability and Climate Action Task Force

From responding to the energy price crisis and the rising cost of living, to the need to address both the nature and the climate crises, to Russia's war on Ukraine, the last 12 months have delivered profound shifts across the entirety of the sustainability spectrum. In 2022, we also saw regulators in the United Kingdom, United States, Mainland China and Singapore implementing or drafting, new regulations to combat "greenwashing." My prediction is that this year, there will be more regulations in that area, especially if "greenhushing" – which refers to downplaying and underreporting, or even keeping silent about sustainable practices to avoid scrutiny – is to become the new greenwashing.

As the Convenor of the Greenwash Prevention Working Group (GPWG) of the Institute's Sustainability Committee, I had the pleasure to host and moderate a panel discussion for a webinar titled "Greenwash Prevention – why it matters and how to address it" on 7 November 2022.

About the e-Seminar

In addition to inviting Gabriel Wilson-Otto, Head of Sustainable Investing Strategy at Fidelity International, to speak from the viewpoint of an asset manager, I invited Dr. Kim Schumacher, Associate Professor in Sustainable Finance and ESG at Kyushu University in Japan, to share his views from both an academic and a scientist's perspective. The webinar focused on greenwashing behaviour by corporates and providers of sustainability-related financial products and services.

Both speakers agreed that the incredible growth in sustainable investments over the last decade, with sustainable assets under management having reached a volume of more than US$3 trillion in 2021, created an incentive to get on the environmental, social and governance (ESG)-labelled bandwagon and label a fund as "sustainable" without any proper assessments, thereby running the potential risk of greenwashing. In the world of sustainable finance, greenwashing can be defined as "the practice of marketing financial products as 'green' or 'sustainable,' when in fact they do not meet basic environmental standards."

Dr. Schumacher highlighted that sustainable funds are supposed to reduce sustainability-related risks or generate a positive sustainability impact. However, a lot of these funds made claims that cannot be substantiated with evidence. Another example of greenwashing would be when corporations announce a net zero pledge by 2050 without providing any plans on how they intend to go about achieving that.

Wilson-Otto explained how greenwashing concerns can arise from a lack of standards and different expectations depending on the investment strategy employed by the asset manager (e.g. "thematic focus"; "ESG integration"; "corporate stewardship," etc.). In addition, greenwashing allegations can have different sources: by design (e.g. intentional misrepresentation of green credentials) or accident (e.g. lack of internal controls to substantiate a product's environmental claim); absolute differences (e.g. different definitions of "green" in different markets); or differences of degree in implementation (e.g. many investors have cited the need to phase out thermal coal but to date, oil and gas do not have the same explicit exclusion).

Dr. Schumacher discussed the crucial role of ESG data and ESG ratings. One of his key takeaways is that pervasive greenwashing can happen given that ESG data is mostly self-assessed and self-reported by corporates. In terms of ESG ratings, he said that the same company can have a very different score across different ESG rating providers.

Given the continuous momentum in sustainable investing, the regulatory landscape is also evolving rapidly. Instances of regulators either investigating greenwashing risks or prosecuting financial institutions for their ESG-related misstatements have become more common. Dr. Schumacher went through some recent examples of greenwashing by corporates, asset managers and financial institutions. Wilson-Otto then gave an overview of the regulatory and industry response globally, including the need for common standards, product labelling, data quality and availability, and transparency.

The speakers also addressed several questions from the participants including "materiality" and whether there was an effective way to identify if information is a greenwash. The archived webinar is now available for enrolment.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