A+

DRIVING BUSINESS SUCCESS

Issue 2 Volume 19 April 2023

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

50th Anniversary

「會」迎金禧 「計」出新程
Accounting for success now and beyond

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

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Introducing the new **A Plus** website

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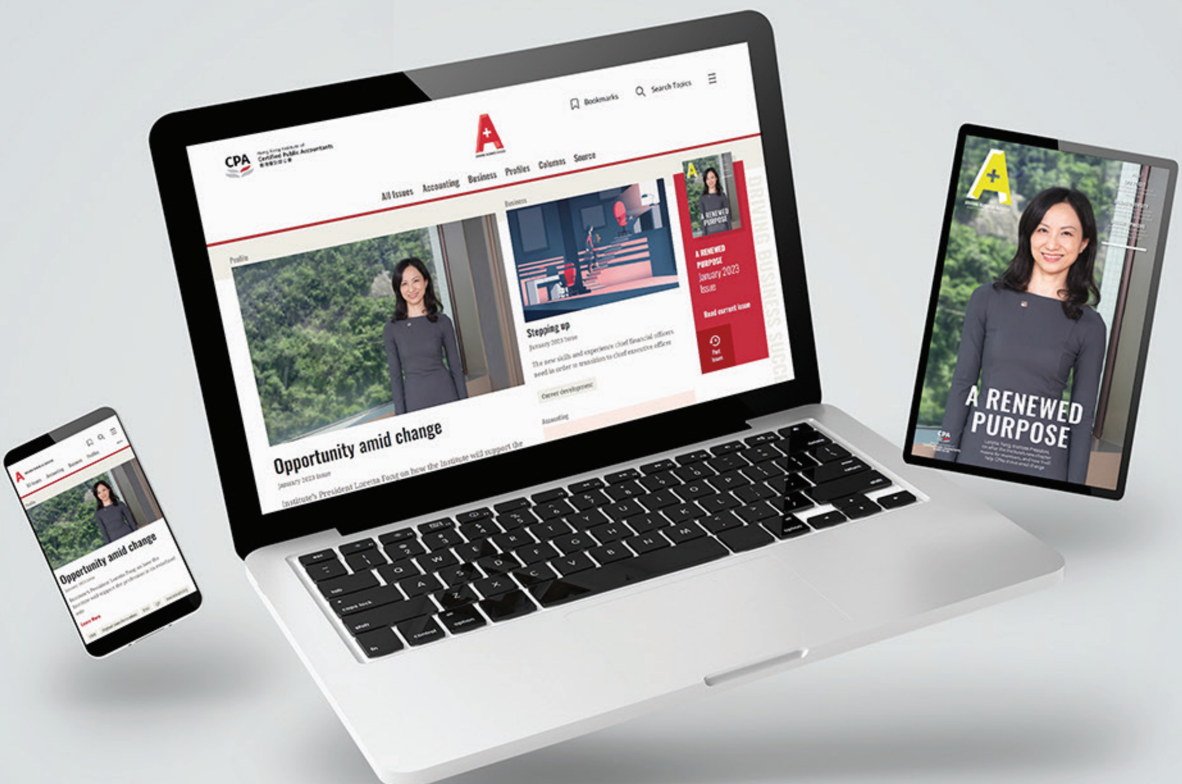

With a refreshed layout designed for easy browsing, the new **A Plus** website delivers a brand new experience to keep you up to date with the latest developments impacting the profession.

Enjoy content on the revamped website carefully curated to help you catch up with Institute, accounting and business news and insights, as well as success stories that will inspire you.

Whether browsing from your desktop or mobile devices, read up on the latest articles and seamlessly transition to articles on topics that interest you.

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"This milestone marks half a century of excellence in the accounting profession, and we are proud to celebrate the achievements of our members and the contributions they have made to the industry."

Dear members,

In April, we announced the details of several important initiatives that will have an impact on the rest of the year and beyond, as we celebrate our 50th Anniversary and look towards a bright future for the accounting profession.

Firstly, we recently announced the Institute's latest Strategic Plan 2023. This ambitious plan sets out our vision for the future of the profession and our organization, reflecting the evolving needs of the industry and our commitment to staying ahead of the curve in a rapidly changing landscape. Our colleagues have created a series of highlights to introduce the main themes of the plan, which you can find on our social media channels.

Details from our Strategic Plan were communicated during a luncheon hosted for representatives from key media outlets, during which we also shared exciting developments at the Institute and in the industry. I was thrilled to share the great progress we've made in achieving the Institute's work plan on environmental, social and governance standard setting, nurturing accounting professional talents, and fostering international recognition, as well as capturing business opportunities in the Greater Bay Area (GBA).

Indeed, we are already making great headway in achieving the goals we've set out. In March, we completed the first of a series of visits that the Institute has planned to promote Hong Kong's accounting profession and explore new opportunities for our members in the GBA. A delegation to Nansha in the GBA, led by myself, met with local government officials and business leaders to explore opportunities for closer collaboration and exchange.

The GBA represents a significant growth opportunity for our profession. This visit and the ones to come are a valuable opportunity for us to gain insights into the latest developments in the region and to build stronger connections with our counterparts in the accounting profession.

Our visit to Nansha is also just one example of our commitment to engage with stakeholders across the industry. We've also been hard at work meeting with various counterparts in the past few months, and members can expect many more as we continue to solidify and promote the prestige of Hong Kong's CPAs.

If you've been keeping tabs, you'll know that the Institute kicked off the celebration of its 50th Anniversary with the launch of the logo, theme, and the introduction of upcoming celebration events. This milestone marks half a century of excellence in the accounting profession, and we are proud to celebrate the achievements of our members and the contributions they have made to the industry and to society.

The theme of our anniversary celebration is "Accounting for success now and beyond." This reflects our commitment to honouring the past while looking ahead to the opportunities and challenges of the future. As part of these celebrations, we have invited members of the Institute who have achieved admirable success to share their experience with the Institute and impart words of encouragement to the next generation of CPAs – starting with Ayesha Macpherson Lau, Chairman of the Mandatory Provident Fund Schemes Authority. Be sure to read the first one on page 18 in what will surely be a series of inspiring interviews!

We have also planned a series of events and activities to mark this occasion, including the exciting horse racing event in June, followed by a prestigious world-class congress in July, and the anniversary gala dinner in December. Details on how to take part will be shared through our various communication channels, so be sure to stay tuned!

As we continue to work towards our goals in 2023, I am excited to see the progress we make and the opportunities that lie ahead. The Institute is committed to serving the needs of our members and bringing the accounting profession to new heights as we celebrate 50 years of success. I look forward to working with all of you to achieve these goals and to build a stronger, more vibrant accounting profession in Hong Kong and beyond.

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 47,057 members, 14,342 students of the Institute and 2,183 business stakeholders every quarterly.

NEWS

Institute news Business news

Institute's 50th anniversary celebrations begin

The Institute has launched its 50th anniversary celebrations, encompassing a variety of events and activities taking place over the coming months. All the events, initiated by the Institute's Council and 50th Anniversary Organizing Committee, are designed to connect the profession with the public and to showcase the incredible work that members have done since the Institute's inception in 1973.

To begin marking this incredible milestone, the Institute has introduced its 50th anniversary logo. Incorporating the wing from the Institute's logo that is coloured the red of Hong Kong's bauhinia flag, the number 50 encompasses the Institute's vital role as the guardian of the city's financial system over the past five decades. The logo is further embellished with fireworks that are the same colour as the Institute's remaining wings.

The theme, "Accounting for success now and beyond," reflects our achievements over the past half century, as well as the Institute's and the profession's continued efforts to remain mainstays of Hong Kong's development as an international financial centre.

The celebrations will be kicked-off with members being invited to a "50th Anniversary Cup" horse racing event in June. This will be followed by a prestigious global congress during the summer that will bring some of the world's leading minds in business together, and then a gala dinner to honour the most esteemed members at the end of the year. Members will be kept up to date on all of the latest news and information about the campaign via email and social media.

Strategic Plan 2023 out now

The Institute published its Strategic Plan 2023, which lays out the direction and goals for the organization over the next year, and reflects its commitment to championing the accounting profession in Hong Kong and beyond.

The plan was developed and refined after the annual review of the Strategic Plan undertaken by Council, taking into consideration the latest opportunities and challenges with members' best interests in mind. A number of the actions and initiatives included in the 2022 plans have been completed but many others are ongoing and will be complemented by newly developed actions to ensure all challenges continue to be addressed. Major objectives of the plan include contributing to the city's sustainability journey, cultivating internationally recognized talent, building a positive image for the profession, as well as facilitating opportunities in the Greater Bay Area (GBA).

Institute promotes the Hong Kong profession in GBA

Institute President Loretta Fong led a successful delegation and represented the Institute at a forum, both in Nansha, Guangzhou. During the visit at the end of March, the delegation met

A delegation, led by Loretta Fong, President of the Hong Kong Institute of CPAs, in Nansha, Guangzhou

with local officials, industry leaders, and accounting professionals to learn more about the business landscape and regulatory environment in Nansha. This was the first of a series of visits that the Institute has planned with the support of the Hong Kong government's Professional Services Advancement Support Scheme fund to promote Hong Kong's accounting profession and explore new opportunities for members in the GBA.

Later in April, over 100 attendees from around the region, including representatives from the Hong Kong Liaison Office and the Hong Kong and Macao Affairs Office of Guangdong Province, gathered to participate in a forum focused on issues revolving modern accounting services and the high-quality development of the GBA. The President delivered a keynote speech on environmental, social and governance matters that was well received by the attendees.

Institute's response to the 2023-2024 Budget

The Institute welcomed the 2023-2024 Budget, which was announced on 22 February and included numerous suggestions made by the Institute in its budget submission. It is hoped that the budget will help the city get back on track, revive the economy in the post-COVID era, and reconnect Hong Kong with the international community. However, the Institute believes that the government could also formulate more targeted measures so as to enhance Hong Kong's competitiveness in the medium and long-term. Read the Institute's press release to learn more.

Institute to host CPA Sports Carnival 2023

For the first time, the Institute will co-host the CPA Sports Carnival 2023 with The Society of Chinese Accountants & Auditors on 7 May at Siu Sai Wan Sports Ground. Themed "Happy 香港 ・ 活力 CPA," the event aims to bring professional accountants together in a fun way, through engaging in different sports, and to share the benefits of exercise. Fun booths have also been prepared for CPAs to bring along friends and family.

Council meeting minutes

The abridged minutes from the January, February (Strategy Day) and March 2023 Council meetings are now available.

Disciplinary finding

Lee Sun, Antony

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of integrity under section 110.1 A1(a) and subsections R111.1 and R111.2 under Chapter A of the *Code of Ethics for Professional Accountants*; the fundamental principle of professional competence and due care under section 110.1 A1(c) and subsection R113.1 of the Code; Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; Hong Kong Standard on Auditing (HKSA) 230 *Audit Documentation*; and HKSA 500 *Audit Evidence*; and being guilty of professional misconduct.

Lee was the sole practising director of JTBC CPA Limited (practice) which was registered in February 2015. The practice was subject to an initial practice review (review) by the Institute's Quality Assurance Department which was concluded in October 2020. The review identified significant findings which led to concerns over Lee's lack of integrity, and professional competence and due care, demonstrated by (i) his conduct in response to the review, in particular, the creation of working papers, and provision of false or misleading information/representations; (ii) deficient quality control system of the practice; and (iii) the lack of audit quality in the practice's audit engagements.

Decisions and reasons: Lee admitted to the complaint against him. The Disciplinary Committee found that Lee had been guilty of professional misconduct. The committee reprimanded Lee and ordered that the name of Lee be removed from the register of CPAs for 18 months and his practising certificate be cancelled with effect from 31 March 2023. He was ordered to pay a penalty of HK$200,000 and the costs of the disciplinary proceedings of HK$71,298.

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

香港特別行政區立法會
LEGISLATIVE COUNCIL
OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION

招標公告
Tender Notice
為立法會議員的工作開支償還款額申請
提供審計監察服務
Provision of Compliance Audit Services on Legislative Council Members' Claims for Reimbursement of Operating Expenses

現藉此公告邀請會計師承投就**立法會議員的工作開支償還款額申請**進行審計工作。此項審計工作每年進行，旨在確保議員提交的申請符合《立法會議員申請發還工作開支的指引》所訂的利益衝突及利益申報條文，藉以提高該等申請的問責性和透明度。

Certified Public Accountants are invited to tender for the conduct of audit in respect of **Legislative Council Members' claims for reimbursement of operating expenses**. This annual audit seeks to assure that Members' claims are made in compliance with the provisions on conflict of interest and declaration of interest stipulated in "A Guide for Reimbursement of Operating Expenses for Members of Legislative Council" with a view to enhancing the accountability and transparency of such claims.

招標文件可於辦公時間內(星期一至星期五上午 9 時至下午 6 時) 向立法會秘書處行政部索取 (地址：香港中區立法會道 1 號立法會綜合大樓；電話：3919 3085；電郵：tender@legco.gov.hk)。

The Tender Documents can be obtained during office hours (9:00 am to 6:00 pm, Monday to Friday, except public holidays) from the Administration Division of the Legislative Council Secretariat (Address: Legislative Council Complex, 1 Legislative Council Road, Central, Hong Kong; Telephone: 3919 3085; Email: tender@legco.gov.hk).

投標者須於**2023年6月1日下午3時或之前**，把競投承辦此項服務的標書放入立法會綜合大樓地下公眾入口2標明上述投標項目的投標箱("指定投標箱")內。倘若在**2023年6月1日上午9時至下午3時**期間，黑色暴雨警告或8號或以上熱帶氣旋警告信號或政府公布的超強颱風後的"極端情況" 生效，或立法會綜合大樓關閉，截止投標時間將順延至下一個工作天的下午3時(而當天上午9時至下午3時期間的任何時間，黑色暴雨警告、8號或以上熱帶氣旋警告信號或政府公布的超強颱風後的"極端情況" 不曾生效，而立法會綜合大樓不曾關閉)。逾期遞交的投標書或沒有放入指定投標箱內的投標書，一概不予受理。

Tenders for the service shall be deposited in the Tender Box marked with the title above ("Specific Tender Box") situated at Public Entrance 2, G/F, Legislative Council Complex **by 3:00 pm on 1 June 2023**. In case a Black Rainstorm Warning or a Tropical Cyclone Warning Signal No. 8 or above is in force, or "extreme conditions" was announced by the Government after super typhoons, or the Closure of the Legislative Council Complex takes effect for any duration **between 9:00 am and 3:00 pm on 1 June 2023**, the Tender Deadline will be extended to 3:00 pm on the next working day on which no Black Rainstorm Warning or Tropical Cyclone Warning Signal No. 8 or above, or "extreme conditions" after super typhoons announced by the Government is or are in force, and no closure of the Legislative Council Complex takes effect, for any duration between 9:00 am and 3:00 pm on that day. Late tenders and tenders not deposited in the Specific Tender Box will not be considered.

立法會秘書處
Legislative Council Secretariat

Project Everest

The codename of the plan to split EY's global audit and consulting units, which was called off in April after resistance from affiliates in some countries. The proposal was originally brought up after regulators once again voiced concerns about conflicts of interest within the Big Four.

¥212 million

The amount that Deloitte's China unit was fined by China's Ministry of Finance in March after deficiencies were found in the firm's audit of China Huarong Asset Management. The violations included not gathering sufficient audit evidence and failing to show professional scepticism.

3.5% to 5.5%

How much Hong Kong's economy is predicted to rebound in 2023, according to Financial Secretary Paul Chan in his Budget speech. Hong Kong suffered a contraction of 3.5 percent in 2022 as a result of the pandemic.

The government announced the details of its "Happy Hong Kong" campaign, which offers a range of activities and events designed to help stimulate local consumption and the economy. At a press conference on 24 April, Financial Secretary Paul Chan said that 29 April would be "Hong Kong Cinema Day 2023," where all cinema tickets across the city will cost HK$30 each. The government will also organize a series of food markets from this month to June, as well as a carnival.

<50%

How accurate ChatGPT was at answering accounting assessment questions – including on topics such as audit, management accounting and tax – from 186 institutions around the world. Human students scored an average of 76.7 percent, in the study carried out by the American Accounting Association.

€500,000

The amount that EY Germany was fined by regulators in April for "breaches of duty" related to its audits of Wirecard. The firm has also been banned from taking on any new audit for public interest entities in Germany for the next two years.

> "This transitional relief ensures companies can phase in their approach, initially focusing on the quality of the climate-related information they provide."

– Emmanuel Faber, International Sustainability Standards Board (ISSB) Chair. At its meeting on 4 April, the ISSB decided that it will complement its package of transitional reliefs to support companies applying the ISSB's first two standards. The relief means companies can prioritize putting in place reporting practices and structures to provide information about climate-related risks and opportunities in the first year of reporting using the ISSB standards.

29 years

How long KMPG had been the auditor for Silicon Valley Bank when the firm gave the bank a clean audit opinion on 24 February, 14 days before the bank collapsed. Rules in the United States do not stipulate that companies should rotate their audit firm, but set out that the audit partner responsible must change at least once every five years.

20

The number of mid-sized firms that are represented by the Association of Practising Accountants in the United Kingdom, which called on the U.K.'s Big Four to share their audit expertise and technology, reported the *Financial Times*. Partners at some of the four cited problems including how liability would be shared and getting the agreement of their global networks.

A new era of profits tax filing

SPEAKERS:
(From left)

JAMES LIU
Finance Director, IKEA at DFI Retail Group

EMILY CHAK
Tax Partner at PwC

EDMUND WONG
Member of the Legislative Council of Hong Kong, Accountancy Functional Constituency

LEUNG KIN-WA
Deputy Commissioner (Operations) of the Inland Revenue Department

CHARLES LEE
South China (including Hong Kong SAR) Tax Leader at PwC

THOMAS LEE
Assistant Vice President for Group Taxation at PCCW

A roundtable discussion highlights the impact of this month's roll out of the first phase of the Inland Revenue Department's e-Filing project, and how Hong Kong businesses can best prepare themselves for the change. Jolene Otrema reports

Photography by Calvin Sit

As the Inland Revenue Department (IRD) continues on its mission to go digital, businesses and the profession are watching the changes unfold. In 2021, the IRD embarked on a major digitalization process to digitalize the filing of profits tax returns in Hong Kong, titled the "e-Filing project." This month, the IRD rolled out the first phase of the project, with a voluntary e-filing period commencing on 1 April 2023.

Amid this development, *A Plus* organized a roundtable discussion at the newly built Inland Revenue Centre in Kai Tak, to gather views from tax and accounting practitioners on the impact of the first phase, and how businesses can deal with those changes and transition successfully.

To kickstart the event, the IRD representatives briefly explained the reasons for the e-Filing project and its importance for Hong Kong. "We've come a long way in this digitalization journey, and this year we have launched the new e-filing system," said Leung Kin-wa, Deputy Commissioner (Operations) of the IRD, and a member of the Hong Kong Institute of CPAs. "We are doing this to be in line with the government's commitment to make Hong Kong a smart city and also to make sure we fall in line with international practices around tax filing."

Aside from these overarching reasons, digitalizing Hong Kong's tax filing also aims to enhance convenience, accuracy and make the overall tax administration become more environmentally-friendly. "From an environmental point of view, electronic tax filing saves paper and may help fulfil ESG requirements," Leung explained. "And from a tax point of view, it is faster, more efficient and it's actually better for companies because its brings everything together on to one platform which makes doing taxes easier. We've already come quite far on this journey."

Leung pointed out that up until recently, only a

small number of profits tax returns could be filed electronically through the IRD's eTax Portal. Most returns were submitted in paper form because of limited data uploading capacity in the IRD's information technology (IT) infrastructure. A peer review report on the exchange of information on request of Hong Kong, conducted by the Organization for Economic Co-operation and Development (OECD) in 2019, recommended that Hong Kong should take measures to ensure that accounting records for all businesses become available. Considering the issuance of a large number of profits tax returns and processing of voluminous accounting and financial data of companies in the city, there was a real need to collect and process accounting and financial data electronically.

Following a series of consultations with key stakeholders and recommendations from the OECD, the IRD began its tax digitalization journey in 2021 with a taxonomy package proposal and introduction of the Inland Revenue (Amendment) (Miscellaneous Provisions) Ordinance 2021, among others, to enhance the mechanism for furnishing tax returns.

> "Practitioners will have to adopt basic knowledge of iXBRL and learn how to tag financial and tax documents in a different way."

The taxonomy package is essentially a classification system that identifies and structures information in financial statements as well as tax computations and supporting schedules so that the information can be tagged and exchanged in an electronic format. This is an important first step to standardizing account reporting for e-filing.

Alongside the taxonomy package, the IRD also developed the IRD iXBRL Data Preparation Tools (the Tools), which allow taxpayers to convert financial statements and tax computations into inline eXtensible Business Reporting Language (iXBRL) data files, a standardized and specific international computer format for e-filing purposes.

Together, these trigger changes not only to the tax filing format but also behaviour in the preparation of audited financial statements in paper form. "Practitioners will have to adopt basic knowledge of iXBRL and learn how to tag financial and tax documents in a different way," Leung explained.

The entire tax digitalization process will be rolled out in phases. The first phase, already launched this month, enhanced the existing eTax Portal to enable more businesses to voluntarily e-file their tax returns together with financial statements and tax computations in iXBRL format.

The second phase will be the implementation of mandatory e-filing of tax returns starting with large multinational enterprise (MNE) groups and then progressing on to small- and medium-sized enterprises (SMEs), with the ultimate goal of achieving full-scale mandatory e-filing by 2030.

"We hope that this year, taxpayers will begin to migrate and file voluntarily their profits tax returns online through the existing eTax platform, but if you don't want to sign the tax return digitally right now, there is still an option to print a simplified tax form out and sign it physically after uploading the data files," Leung explained.

"We call this a semi-electronic filing mode," he added. "So while digital filing is optional, taxpayers can continue using paper mode, or a combination of both for now."

Embracing the changes

"The implementation of voluntary e-filing this year has brought about some changes that practitioners

need to be aware of," Bo Bo Hui, Chief Assessor of the IRD, and an Institute member, who is the officer-in-charge of the e-Filing project, said. "Firstly, companies will now have to file tax returns and profits tax returns together with supporting documents. This includes small corporations and businesses with gross incomes not exceeding HK$2 million. In the past, they would have been exempt from furnishing supporting documents when filing their profits tax returns.

"Secondly, the IRD has upgraded its existing IT infrastructure to enhance processing capacity and strengthen the provision of digital services. Taxpayers are encouraged to upgrade or develop their own computer programs which are capable of converting their existing financial statements into the required iXBRL data files for e-filing purposes." The IRD says it is fully equipped and stands ready to provide assistance as taxpayers make the transition.

"The IRD knows this is something new, especially for smaller companies. This is why we have developed the Tools online to assist taxpayers to convert their financial statements and tax computations into iXBRL data files. We have also uploaded detailed guidance, frequently asked questions (FAQs) and even provide an e-appointment service, online demonstration and training sessions so that taxpayers don't have to struggle," Hui assured.

"This is a good thing because we have fallen behind. Singapore and other countries are more advanced and we need to change the way we do things."

Referring to the Tools, which consists of a tagging tool and template tool, Hui noted that these were designed with taxpayers in mind, with the template tool specifically built to help smooth the adoption and accounting process for smaller companies. "Big companies won't be able to use the template tool. We recommend that they use the tagging tool," she explained. With this tool, corporations or businesses can import their financial statements in Microsoft Word format and tax computations in Microsoft Excel format directly into the tool and then tag the accounting and tax data for generating the iXBRL data files. An auto-tagging function is included in the tagging tool to assist the users.

To get a broader view of how taxpayers are responding to these developments, Emily Chak, Tax Partner of PwC, and moderator of the roundtable, asked the participants to share their observations on the industry's response so far. According to Edmund Wong, Member of the Legislative Council of Hong Kong, Accountancy Functional Constituency, and an Institute member, the e-Filing project was a long time coming. "From the government's point of view, this is a good thing because we have fallen behind. Singapore and other countries are more advanced and we need to change the way we do things," he said.

Based on a wide range of feedback, Wong concluded that general opinion is supportive of this initiative for the long run. "They understand the pressure to comply with international standards and that we need to be on par with our competitors and other countries, and frankly, it will be easier for IRD to do their job," he said.

James Liu, Finance Director of IKEA at the DFI Retail Group and an Institute member, offered a retailer's point of view, and agreed that this is a step in the right direction especially in boosting Hong Kong's international image. "They have been doing this overseas for a long time now, and in Hong Kong, we want to attract talents. But when they come here and look at us, they might wonder why we haven't got this? This needs to be addressed. How can we digitalize and promote our international image?" he said.

Thomas Lee, Assistant Vice President for Group Taxation at PCCW and an Institute member, who was involved in the pilot run of the e-filing system, also voiced his support for the IRD's initiative.

"There are more digital natives in the workplace today, and for this reason, companies are increasingly likely to embrace new technology changes," he noted. "In the past, some people might remain sceptical, but nowadays, there isn't a lot of pushback against new technology. Instead, they are keen to know how to use it, how it can benefit their companies, how it can be integrated with existing operations and platforms, and how it can add value to their businesses," he said.

Expected initial issues

Of course, transitions aren't always smooth. However, Leung assured taxpayers and practitioners that the IRD understands that change takes time, so it has introduced further extensions for adoption of voluntary e-filing and will allow room for errors to address technical issues that may arise, and will take a lenient approach in assessing the accuracy of tagging.

"The IRD understands that tagging is new to all taxpayers," Hui added. "But during the transition period, the IRD will be more lenient. For example if you incorrectly tagged an item as electricity instead of entertainment, but it doesn't affect your overall profits, it won't trigger an error and there will be no penalty actions. It will get looked at on a case-by-case basis."

Leung further assures taxpayers, pointing out that the IRD is now working hard to come up with potential scenarios and common errors and the relevant penal action. "We understand that this is all new and taxpayers are bound to make some mistakes," Leung said. "Penalties will be considered on a case-by-case basis. We will look at why there was an error in the first place and whether there should be a penalty. We are also addressing these in our FAQs, which were published on 3 April on the IRD website."

The IRD believes a long transitional period is the best way to allow people to get used to the new e-filing system. At the same time, it hopes that these leniencies will encourage an early uptake.

Charles Lee, PwC's South China (including Hong Kong SAR) Tax Leader and an Institute member, pointed out that MNCs aren't surprised by the changes, and because some have already been using e-filing for their tax management and compliance in other countries including in Mainland China, they generally welcome e-filing which aligns with international practice. For local companies, however, there could be practical challenges for them upon first-time adoption. "Local companies would consider the need to upskill staff and upgrade technology for a smooth transition, so it is likely that they will adopt a phased approach, which would allow them to have sufficient time getting prepared," he said.

IKEA's Liu agreed, adding that implementation, though voluntary for now, implies the need for speed and cost. "That is key. The faster the IRD rolls it out, the more it will cost as you have to figure out how to support the talent in-house or get external advisory," he explained. Calling it an egg and chicken situation, he recommended that the government could also offer more financial assistance to encourage faster adoption. "That would be best," he said.

Wong anticipated that small companies that don't outsource the e-filing to service providers or use audit firms will face a skills problem. However, he encouraged SMEs to keep an open mind regarding this new way of filing profits tax returns and not to see it as an inconvenience, as well as make use of all the help that the IRD is offering.

Leung agreed, adding that: "e-filing is an essential step in our digital journey. I believe this shouldn't be a problem for many MNCs, while for SMEs – I do believe they should try to get familiar with this system as early as possible. They shouldn't be mistaken that only large corporations should use this system."

According to Wong, e-filing would also significantly help businesses experiencing manpower problems or talent shortages, as it would make it easier to sign than paperwork and streamline the whole process. "In the long run, this will significantly reduce the back and forth between staff and this is a good thing," he said. "But it takes time to

"Local companies would consider the need to upskill staff and upgrade technology for a smooth transition, so it is likely that they will adopt a phased approach."

adjust and we know this. By 2030, I am sure we will all be ready to move away from paper."

Corporate taxpayers are not alone. Liu surmized that experienced tax experts will also face a skills challenge. "To have experience means that they are older, and will have to learn to use the technology, unlike the newcomers who are digital natives but lack the industry experience, so it's a question of how do we upskill?"

"Ultimately, the skill issue goes beyond e-filing," commented Charles Lee. "Digitalization is the global trend and when technology comes into the tax practice, it's a journey where both tax experts and taxpayers should stay ahead with the trend. There are new technologies and software that could greatly add value to the industry, but collectively we have been stuck in our old habits. That's why we've also begun hiring students with a background in STEM subjects in addition to accounting."

Considering the experience overseas

Chak then asked the participants' thoughts on the key success factors for a smooth transition. Collectively, the participants agreed that a successful transition to e-filing will require two things on the part of companies: retraining staff to use the technology and software around e-filing, including converting files to the iXBRL reporting standard, and having a positive mindset change.

In the United Kingdom, iXBRL filing was first introduced in 2010 by Her Majesty's Revenue and Customs and Companies House. Liu, who was working in England at the time, said that responding to the new regulation was all about effective change management. "The beauty is that Hong Kong is offering a long transitional period. There are less penalties for making mistakes and companies are more likely to go ahead and try and do it, and deal with the mistakes when they creep up later," he said, noting that other countries have implemented it in a more rigid manner. "So once you've done it, the second time is about fine tuning, and by the third time it will be smooth. That's the way these things go, but it's all about taking that first step," he added.

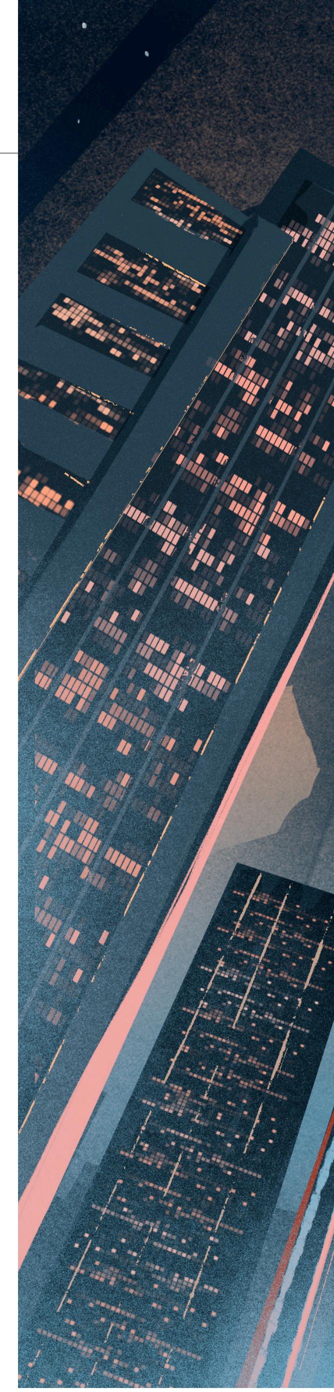
Drawing on his own international experiences, Wong said he expects bigger companies to have less difficulties as this is nothing new for them. He also applauded the current measures put in place by the IRD to help SMEs and said that that should be a motivating factor for smaller companies to get going.

Charles Lee echoed this sentiment. "E-filing was always inevitable and to some extent. Hong Kong is a little late relative to the rest of the world. It is a great opportunity to promote this in the post-COVID-19 era as I'm confident that having been through the pandemic, all organizations will maintain a more positive attitude to this development. Taking the first step to embrace the change and familiarize with the policy is key."

Thomas Lee then voiced his hopes that the platforms and tools in place now would continue to evolve based on feedback. "This shouldn't be the only version, this is just version one. I hope there will be a channel for businesses and professional firms to give feedback to the authorities so that the technology infrastructure can continue to improve and create more value for all parties, and that would create a win-win situation for all," he said.

At the end of the day, the e-Filing project will be more than just a standardization exercise, but also about solidifying Hong Kong's position as an international financial centre. "I think digitalization is a key milestone for Hong Kong in paving its way forward to become a future smart city," said Liu. "It is also a way to achieve sustainability which is a key foundation to building a future for generations to thrive."

The e-Filing project is being implemented in two phases. The first phase, launched this month, enhanced the existing eTax Portal to enable more businesses to voluntarily e-file their tax returns together with financial statements and tax computations in iXBRL format. The second phase will be the implementation of mandatory e-filing of tax returns starting with large multinational enterprise groups and then progressing on to small- and medium-sized enterprises.



MAKING A COMEBACK

Amid Hong Kong launching its global promotion campaign after three years of strict COVID-19 restrictions, Nicky Burridge talks to Institute members working in the tourism sector about how organizations are positioning themselves for the rebound, and the role CPAs play in helping the sector take advantage of the tourism revival

Illustrations by Gianfranco Bonadies

In December 2022, Ngong Ping 360 launched its Crystal+ cabin – marking the first upgrade to its cable-car experience since 2009. "We launched this brand-new cable car experience so that tourists can enjoy a new experience from us. It is important to give our guests a sense of novelty when they visit to keep things fresh," Kathy Yuen, Head of Finance at Ngong Ping 360 and a member of the Hong Kong Institute of CPAs, explains.

Like Ngong Ping 360, other attractions across Hong Kong are taking steps to capture the rebound in tourists since anti-pandemic measures were eased. But visitor numbers remain well-below their pre-COVID-19 level, while those who do come are looking to spend their time in different ways.

Tourist numbers fell sharply during the pandemic, with Hong Kong receiving just 1,603 overnight visitors for the whole of March 2022, according to Hong Kong Tourism Board (HKTB) figures. "The pandemic has had a huge impact on the tourism industry. More than 80 percent of visitors to the cable car used to come from overseas, so it went from 80 percent to a small percent," Kathy Yuen says.

Following the reopening of the border on 6 February, there has been a rebound in tourists, with nearly 775,000 overnight visitor arrivals in February this year, according to HKTB statistics. Unsurprisingly, more than two-thirds of these visitors were from Mainland China, with tourists from short haul markets, such as Taiwan and Southeast Asia, also showing a strong increase. But numbers remain well down on their level before the pandemic. HKTB forecasted in early January that a total of 25.8 million tourists will visit Hong Kong in 2023 – around 46 percent of the average annual total seen between 2017 and 2019.

Institute member Gloria Yuen, Finance Director – Asia at Madame Tussauds Touring Exhibition Ltd., also points out that the majority of early visitors were not tourists, but rather people coming to Hong Kong for family reunions or to shop. The situation is starting to change, and she says Madame Tussauds has seen an increase in tourist numbers following the end of the face mask mandate. "We are projecting a significant recovery to start from the May Labour Day holidays and hopefully continue during the summer holiday," Gloria Yuen adds.

Ysanne Chan, Deputy Chief Executive and Chief Financial Officer, Ocean Park Corporation, and an Institute member, says since Chinese New Year, there has been a noticeable increase in the number of tourists visiting the parks. "This has left us feeling optimistic about the future and we anticipate a gradual increase in the number of Mainland travellers in the coming months," she says.

> "We are projecting a significant recovery to start from the May Labour Day holidays and hopefully continue during the summer holiday."

Government campaigns

To help encourage tourists to come back to Hong Kong, the government launched a global promotion campaign under the tagline “Hello Hong Kong” in February. It includes the release of promotional videos by HKTB which have reached 200 million people worldwide, as well as giving away 500,000 airline tickets by airlines and the Airport Authority Hong Kong, initially to people in Southeast Asia, followed by Mainland China, Northeast Asia, and other markets.

HKTB is also distributing consumption vouchers to one million visitors, while 700 trade and media representatives, celebrities and influencers were invited to the city in the first three months of the year to generate interest in Hong Kong as a destination. Jamie Mak, an Institute member and General Manager, Corporate Services at HKTB, adds: “HKTB will join at least 22 large-scale trade shows in meetings, incentives, conferences and exhibitions (MICE), leisure, and cruise tourism with trade partners to demonstrate Hong Kong’s tourism appeal to the worldwide market. A series of iconic mega events will also make a comeback and be restored to a scale comparable to pre-pandemic editions.”

These events include the Hong Kong International Dragon Boat Race in June, a Hong Kong Cyclothon, a Hong Kong Wine & Dine Festival and the promotion of regular fixtures such as the Hong Kong Marathon, the Hong Kong Sevens and Art Basel.

Gloria Yuen welcomes the campaign, but thinks the issuing of the free airline tickets could have been handled better. “It created noise in the market, but nobody knew the exact mechanics for their release until almost one month later.” She

adds that the redemption process for the consumption vouchers is also quite complicated and there are no visible signs for participating outlets and attractions.

Appealing to different tourists

As Hong Kong reopens, many attractions are focusing on different tourists compared with before the pandemic. Gloria Yuen expects the early wave of tourists to be from countries in Southeast Asia, with long haul travel taking longer to recover. She adds that while there has already been a return of tourists from southern China, the time they spend in Hong Kong has reduced, and many now only spend one night in the city, compared with four to five days before the pandemic.

The type of traveller coming to Hong Kong has also changed, with Gloria Yuen expecting more independent travellers who book their own excursions through apps, rather than tour groups. Kathy Yuen agrees: "We see the rebound of long-haul visitors being slower. They need more time to plan for a visit and generally want to stay longer."

She adds that the way tourists spend their time in Hong Kong has also changed. "Before the pandemic, they might have focused on shopping, but now they seek experiences and want to explore new and unique things in Hong Kong." It is one of the reasons why Ngong Ping 360 has launched its new Crystal+ cabin.

HKTB's visitors' survey found a new demand from visitors to immerse themselves in nature, arts and culture. "To attract high value visitors, HKTB is stepping up promotion of MICE tourism through bidding for and supporting MICE events of various scales, covering a wide range of fields such as finance, innovative technology and medical sciences," Mak says.

It is also working closely with cities in the Greater Bay Area (GBA) to promote multi-destination tourism to external markets under the tagline "Meet Hong Kong, Meet GBA," as well as encouraging Mainland organizers to host events in Hong Kong to reach out to an international audience.

Gloria Yuen says Madame Tussauds started to plan for the recovery in tourist numbers late last year. Measures it has taken include social media promotions and the launch of new wax work figures that visitors can have their photographs taken with, focusing on celebrities from China and Malaysia. "We have not done this for three years during the COVID period," she says.

In terms of pricing, Madame Tussauds is now focusing on yield, offering a premium experience to visitors at a higher price, Gloria Yuen explains. Ocean Park is also increasing its promotional activities in its major visitor markets. "We have collaborated with HKTB to host a series of familiarization tours this year for travel trade representatives from the Mainland, Singapore, Malaysia, Thailand, the Philippines, Indonesia, Korea, Japan, and Taiwan," Chan says. "In addition, we have enhanced our online content and ticketing features, making it convenient for

"Recruitment is a critical challenge as we seek to hire the right people with the necessary skills to deliver a great visitor experience."

individual travellers to book their admission tickets in advance with special promotion packages."

Chan adds that throughout the pandemic, Ocean Park developed new experiences to appeal to local tourists, such as its Starry Summit Glamping programme, which had special Halloween and Christmas versions, its conservation and education experiences, including its Little Meerkat and Giant Tortoise Adventure, and new Get Closer to Animals programmes.

Although it has not made any major changes to its pricing structure, Ocean Park has introduced a number of pay-as-you-go experience options and special promotions.

Following a government bailout in which Ocean Park received HK$10.6 billion, it has continued with its "rethink" strategy, under which it aims to enhance the visitor experience and amplify its conservation and education focus.

"We are taking a proactive approach to managing our financial resources, implementing cost control measures to reduce expenses where possible, optimizing our cash flow management, and exploring new revenue streams to diversify our income sources," Chan explains.

Kathy Yuen says Ngong Ping 360 had not anticipated the border to reopen until July, so had previously allocated most of its budget to local promotions. "We have had to review our budget, as we need to spend money on overseas markets now or we will miss our chance," she says. She adds that the company is working closely with HKTB to reach tourists in its key visitor markets, such as Thailand.

Alongside the introduction of the Crystal+ cabin, it is also investing resources into encouraging visitors to explore Tai O fishing village, and holding workshops for tourists. "We are looking at ways to help visitors experience more of Lantau Island to diversity our revenue sources," Kathy Yuen explains. In addition, the company has replaced the previous combo ticket for its various attractions with a more flexible pricing structure, allowing visitors to pay for each attraction individually.

Talent shortages

Despite the increase in tourist numbers, many attractions still face challenges as they look to take advantage of the rebound.

HKTB points out that while travel agents, airlines, hotels and other tourism-related sectors are eager to hire new staff, manpower capacity is taking time to recover. "We expect a gradual and orderly recovery of Hong Kong's tourism industry, while the actual pace will depend on various factors, including manpower shortages, the challenging global economic outlook and intense competition for visitors in the region," Mak says.

The shortage of talent in the tourism sector is an issue for many attractions. "Recruitment is a critical challenge as we seek to hire the right people with the necessary skills to deliver a great visitor experience," Chan says.

Kathy Yuen agrees: "Three years is a long time for a company to keep its business going especially with a significant drop in revenue. Cost saving is, of course, one of the key targets, however, we managed to find savings from other operating expenses and to not implement any lay-off or unpaid leave plans. Management put their hearts into making the health and safety of our staff a top priority. This helped us to retain talent. So far, manpower loss has been from natural turnover, however, it is unavoidable that many tour guides moved to other jobs. We used to rely on freelance tour guides but now we don't have a big pool of people. If more visitors come, we might not be able to find the right people to help us deliver tours."

To address this issue, Ngong Ping 360 is working closely with the Travel Industry Council of Hong Kong and other parties to recruit tour guides back to the sector. Madame Tussauds also faces challenges in this area. "Our biggest headache is recruitment," Gloria Yuen says.

The role of CPAs

Kathy Yuen thinks CPAs have an important role to play in helping attractions be flexible and giving advice to management in order to take advantage of the tourism rebound. "As a CPA, you need to think about the business first, and protect the company from any potential loss and optimize costs."

The turbulence of the past three years has brought out the agility of CPAs working in the tourism industry. "As CPAs, we put our focus on cost cutting in all cost lines during the critical pandemic period, and were especially focused on cash flow management in order to survive during the toughest business downturn," Gloria Yuen says. "For the recovery, we are working closely with management, setting our business strategy by exploring the latest marketing trend and industry data. We are also seeking new opportunities including collaboration with other industry players to maximize our market share post-pandemic."

She adds that CPAs can also work on business proposals that accomplish a decent return, as well as focusing on internal controls.

Chan points out that CPAs can assist with financial planning and forecasting for the economic environment, as well as providing insights in areas such as managing cash flow, optimizing revenue streams and controlling costs, and providing guidance on risk management, such as developing contingency plans and diversifying revenue sources.

"With the uncertain economy and the pandemic's impact on the travel industry, this financial planning and forecasting is particularly relevant, as it will enable members in the travel industry to make informed decisions to meet the challenges ahead," she says.

Following the reopening of the border on 6 February, there were 774,890 overnight visitor arrivals in Hong Kong in February this year, compared to 2,372 the year before, according to Hong Kong Tourism Board statistics.

50th Anniversary Interview Series:

FUTURE-PROOF LEADERSHIP

In times of stress, Ayesha Macpherson Lau turns to the pages of fiction novels, plucking herself out of the present and into far-flung places. She recently re-read her favourite, *The Count of Monte Cristo*. "I always remember the main character's remark to his mentee: 'All human wisdom is contained in these two words: Wait and hope.' I like that because that's exactly what I need. I need to learn to be more patient."

Patience is probably one thing required to conduct the biggest reform of Hong Kong's Mandatory Provident Fund (MPF) System, which is what Lau, a member of the Hong Kong Institute of CPAs, is currently focused on as Chairman of both the Mandatory Provident Fund Schemes Authority (MPFA) and the Board of Directors of the eMPF Platform Company, the MPFA's wholly owned subsidiary tasked to operate the digital platform upon its launch in 2024.

The MPF System was established in 2000 to provide basic retirement protection for the working population of Hong Kong. Before its implementation, only about one-third of Hong Kong's workforce had some form of retirement protection. Today, according to the MPFA, the employed population in Hong Kong is almost fully covered by retirement schemes. As at the end of January 2023, total MPF assets amounted to HK$1,120 billion. "This is a very significant pool of resources that the working population can depend upon for their retirement, and it should be treasured by everyone in Hong Kong," says Lau.

Lau, who was reappointed MPFA Chairman in March, points out that the MPF System is still relatively young. "International experience tells us that building a mature retirement protection system can take up to 40 years, so the MPF System is about midway through this journey," she says. "We are like a youngster going through some growing pains right now, and in order to deal with that, we are working on the most important reform project ever introduced to the MPF, which is the eMPF Platform project."

"We are like a youngster going through some growing pains right now, and in order to deal with that, we are working on the most important reform project ever introduced to the MPF."

The eMPF Platform is a major digital transformation project. Through standardizing, streamlining and automating the administration processes of MPF schemes, the eMPF Platform will provide a highly efficient, low-cost user experience for all scheme members and employers, says Lau. "This is going to provide a totally new MPF ecosystem with the eMPF Platform taking over the administration work that is currently being handled by 13 trustees using different systems. It's all going to be centralized onto this platform," she says, adding that users, including 4.7 million scheme members, will be able to easily access and manage their MPF accounts – including switching funds and schemes – via a mobile app or computer. "Another thing is cost savings, which will be directly passed on to the scheme members through trustees' reduction in administration fees, and this is protected by legislation." With the introduction of the eMPF Platform, a cumulative administration cost savings of HK$30 to HK$40 billion is expected over a 10-year period after the platform is fully operational.

Lau is aware that difficulties often emerge when integrating new FinTech solutions into legacy systems. She regretfully notes that MPFA's contractor reported a very likely delay of eight months in the project due to staff shortage and turnover. "Our plan is to start an orderly transition by trustees in sequence starting in 2024. The target of the platform being fully operational in 2025 remains unchanged."

While being complex, the project is also groundbreaking on a global level, according to Lau. She notes that the eMPF Platform is a pioneer globally when it comes to comprehensive scheme administration systems for privately managed pension schemes. "We must make

Throughout the past 50 years, the Institute has empowered and equipped its members to contribute to the wider community – members like Ayesha Macpherson Lau, Chairman of the Mandatory Provident Fund Schemes Authority. Lau talks to Jemelyn Yadao about how its digital transformation project, the eMPF Platform, will reshape Hong Kong's retirement and pension industry, and how her accounting experience has been critical in her most challenging public service role yet this a great success because not only will it bring a lot of benefits to Hong Kong stakeholders, but internationally it will put us right up there in terms of retirement systems." Lau adds that overwhelming positive feedback has been received when the vision and development of the project were shared by the MPFA with peer regulators from around the world.

Previously managing partner of KPMG China in Hong Kong, Lau believes her background as a CPA has equipped her to handle the pressure and drive the project to completion. "In a CPA firm, we deal with a lot of large-scale projects that involve a large number of team members, many countries, and take months, if not years, to do. It's a very similar experience," she says.

Sustainable investing

With people in Hong Kong living longer than ever, and the increasingly volatile financial markets, the MPF System faces the challenge of ensuring scheme members receive a sustainable level of retirement income. Lau points out that MPF investment returns were particularly affected by the heightened market volatility last year. "A lot of it is invested in equities and bonds. And last year, for the first time ever, prices of equities and prices of bonds fell at the same time. With these macroeconomic developments, our scheme members have a stronger desire for MPF funds that would offer them more stable returns."

In his Budget Speech in February, the Hong Kong Financial Secretary tasked the MPFA and the Hong Kong Monetary Authority to jointly conduct a study in order to propose MPF funds that would offer stable returns with low fees. The Financial Secretary also plans to earmark a certain proportion of future issuances of government green bonds and infrastructure bonds for priority investment by MPF funds, providing scheme members with an additional option of stable investment. "We welcome the proposed initiative, which is expected to further diversify MPF investment opportunities," says Lau. Increasing MPF product choices, she adds, is one of the most effective approaches to counter market volatility.

Another important way to increase investment stability, is incorporating environmental, social and governance (ESG) factors into investment risk management, she says. "ESG is very important to MPF funds. The impact of ESG risks are often long term, and that's exactly what an MPF investment is – long term," says Lau. "The investment horizon of MPF funds stretches over several decades, making them vulnerable to long-term investment risks.

Ayesha Macpherson Lau, Chairman of the Mandatory Provident Fund Schemes Authority (MPFA), pictured here with MPFA colleagues meeting with representatives of the Hong Kong Society for the Deaf in April, and (pictured above) reaching out to ethnic minority employees in Kwai Chung in August 2021.

Therefore, the MPFA is driving the development of sustainable investing practices for MPF funds to mitigate ESG risks and protect scheme members' interests. We need to have a framework or policy to make sure that MPF investments can manage these risks properly."

The MPFA is a member of the Green and Sustainable Finance Cross-Agency Steering Group, in which the financial regulators in Hong Kong examine policy and regulatory issues in green and sustainable finance, particularly those that may have a cross-sectoral impact. "I think a cross-agency approach is good for Hong Kong because what you don't want is each regulator coming up with its own ESG policy," says Lau.

Principle of integrity

Lau's decision to pursue an accounting career – and a sense of individuality – is partly thanks to her twin sister. "When my sister learned that I wanted to be a lawyer, she declared she wanted to be a lawyer too. If you are a twin, the last thing you want growing up is doing the same thing as your twin because everything so far has been the same for both of you."

She had other, "more rational" reasons. Firstly, she knew the profession would offer her career stability and variety. She believed that being an accountant would offer her a strong foundation for whatever she decided to do in the future. "Everybody needs an accountant. The variety side comes from the fact that all businesses or industries need an accountant, and particularly for professional accountants in practice, it's like working in many different companies at the same time."

She was also drawn by how accountants are synonymous with integrity. "For example, as an auditor, you are paid to independently check and give an opinion on whether the accounts of a company are true and fair. You are paid to basically express your own honest opinion."

"I believe that you shouldn't criticize people for failing to do something if you are not able to do it yourself. If I want to convince people to do something, I should do it first."

Lastly, she was attracted to the international aspect of the accounting profession, which she says is evident in a global financial centre like Hong Kong. "We might be providing the same service to, say, a Chinese client and an American client, but the way we go about it would be different because we need to respect and be sensitive to cultural differences and the different business practices. I think this need to tailor to a client's cultural preferences makes the work more challenging, but also more interesting," she adds.

After graduating with a degree in History from University College London, Lau joined KPMG in London as an auditor. "When I joined the profession to become a trainee, at least 60 percent of the graduates who were hired by accounting firms in the United Kingdom did not have an accountancy degree," she recalls, citing the vast variety of backgrounds her colleagues and herself hailed from. She also remembers her time as a trainee being filled with intense jam-packed days of client work and studying for the professional exams.

She eventually moved back to Hong Kong in 1993, becoming an Institute member that same year, then worked her way up to managing partner of KPMG in Hong Kong. She left the firm in September 2021 following her appointment as MPFA Chairman. Lau says the leadership techniques she developed and exercised at the firm have been equally useful in the pension industry. "The leadership qualities needed are very similar whether you are in a large CPA firm or a public organization. Firstly, a good leader will be able to see the strengths in each team member, and then assign work or plan work to suit the strengths of those people, and make sure that the team members will work well together," she says.

Lau also stresses the importance of leaders listening to different views and ideas, and using the information for making the right decision. "Once you make that decision, you need to be very clear and open about your logic because you need the buy-in of the team. They can only carry out your decision when they understand your thinking," she adds.

"Another thing which I find it the same, whether at KPMG or MPFA, is the importance of leading by example. I believe that you shouldn't criticize people for failing to do something if you are not able to do it yourself. If I want to convince people to do something, I should do it first. It can be as simple as showing respect by being on time for meetings."

The tax specialist

After three years of doing audit work, Lau chose to specialize in tax. A few aspects of the specialization were compelling to her, such as its immediate and future impact. "It's about helping businesses and senior management to strategize and plan for the future. I find that very rewarding and I feel appreciated because tax is a cost, so the value of your service is very immediate," she says.

"The other thing is, because tax planning is usually the responsibility of the top management of the client, you're privy to a lot of confidential information about their future business plans. This also means that you get to interact with senior-level people in your client's organization, which is very unique and valuable

The eMPF Platform, which is under development, will standardize, streamline and automate the administration processes of MPF schemes. A cumulative administration cost savings of HK$30 to HK$40 billion is expected over a 10-year period after the platform is fully operational.

Lau, who started her career as an auditor at KPMG in London, specializes in tax. She was an active contributor to the Institute's tax-related initiatives.

> **"Focus on an area of specialization and aim to be a recognized expert in that field, but at the same time, invest time in general knowledge."**

for a young professional." Taxation is also where her interests in accounting and law merge, she adds.

Lau became a regular speaker and writer on tax matters, and had also been active member of the Institute's former Taxation Committee since 2003 and became the chairman from 2009 to 2011; she continued as a member of the renamed Taxation Faculty Executive Committee in 2012 and served as convenor of the Taxation Faculty Subcommittee. She says that working with "many intelligent and kind people" made her time at the committee rewarding. "We worked together on many technical issues, not just related to the Hong Kong tax system but on an international tax level, particularly as the Organization for Economic Co-operation and Development has been driving a lot of reforms. There was also a lot of experience-sharing, for example in terms of how to run a professional firm."

The committee, she notes, is an example of how the Institute empowers its members to contribute to the wider community. Lau looks back on how she was able to play a key role in developing the Institute's budget proposals to the government. "The Institute has always spent a lot of time and effort into formulating well-thought through, practical recommendations to the Financial Secretary."

Lau was also able to give back to society as a member of the Institute's former Community Services Committee from 2003 to 2005, and then as deputy chairman from 2006 to 2007. "I have met Institute members who are very willing to contribute to society; who unselfishly contribute to society," she says.

A proud CPA

Lau says she's a proud Institute member. "Accounting is a pillar of the Hong Kong economy. And also, our members have branched out into all walks of life, including being appointed by the government to many advisory and statutory bodies," she says, adding that some members are also advising the Mainland government, and representing Hong Kong in international bodies. "In that sense, the Institute and its members make a huge contribution to Hong Kong as an international financial centre."

Lau says she looks forward to celebrating the Institute's 50th anniversary this year. In terms of how the profession has evolved over the years amid increasing competition in the corporate world, Lau points out that CPAs have been moving into a wider range of specializations and providing higher-value services to their clients. "Mainly in the last two decades, the profession has really branched out into more specializations – Look at the different specialized areas of consultancy that our members are now involved in. I think new specializations will keep coming up," she says.

Based on this, Lau shares her key piece of advice for young accountants: "In this increasingly complex world, I believe that a really good CPA is a specialist as well as a generalist. Focus on an area of specialization and aim to be a recognized expert in that field, but at the same time, invest time in general knowledge because the more senior you are, the more important it is to be able to hold conversations on any topic."

Inspired by accountants

Lau believes her CPA experience, and the job security that came with it, was a big enabler in her having the capacity and opportunities to do meaningful work for the city and its people, including her current role. As MPFA Chairman, one of her key aims is to build a retirement savings system that is valued by the Hong Kong people, in particular, the grassroots and low-income employees.

"A key aspect of our work is reaching out to our stakeholders including grassroots stakeholders. After all, the MPF System is a social system, so I believe that the most important thing is to make sure that we can cater to the grassroots scheme members. Because for them, the MPF may be their most important, or in some cases, their only retirement savings. So if we get that right, we are done," Lau says.

Time and time again, Lau has demonstrated her passion to serve the public throughout her career. When asked what has fuelled this passion, Lau points to the many CPAs – throughout the Institute's half-century-long history – who have made a difference in society. "It's because of my predecessors or my senior CPAs, and looking at them," she says. "They have all set a very good example for me."

Ada Chung

The Barrister and Privacy Commissioner for Personal Data (PCPD) and member of the Institute on why companies need to proactively safeguard the security of personal data in enhancing their competitive edge in the age of digitization

Navigating personal data privacy and security in the age of digitization

With digitization advancing at breakneck speed, cyberattacks have emerged as a significant threat for most businesses, especially those that deliver services and products online. According to Check Point, an international provider of cybersecurity solutions, the average weekly cyberattacks per organization worldwide increased by 38 percent in 2022 when compared with 2021. Organizations of any size could be vulnerable to cyberattacks and suffer financial losses, reputational damage, regulatory penalties and other harm as a result.

The upward trend in cyberattacks has also led to a corresponding increase in data breaches, which stem not only from human blunders but also technical vulnerabilities relating to phishing, unpatched vulnerabilities, weak user passwords and the implantation of malicious software. Over the past five years, on average, about 26 percent of data breaches reported to the PCPD were caused by cyberattacks. In three of our recently published investigation reports, we concluded that the major factor, or one of the major factors, attributing to the data breach was the data user's failure to identify a known unpatched security vulnerability and take reasonably practicable steps to safeguard the security of its server(s) or database(s), which left a loophole for unauthorized access.

Relevant requirements under the PDPO

The Personal Data (Privacy) Ordinance (PDPO) imposes a positive duty on data users to safeguard the security of personal data. Data Protection Principle 4(1) requires a data user to take all practicable steps to ensure that any personal data held by the data user is protected against unauthorized or accidental access, processing, erasure, loss or use having particular regard to: the kind of data and the harm that could result if any of those things should occur; the physical location where the data is stored; any security measures incorporated (whether by automated means or otherwise) into any equipment in which the data is stored; any measures taken for ensuring the integrity, prudence and competence of persons having access to the data; and any measures taken for ensuring the secure transmission of the data.

PCPD's guidance on data security measures

As concerns on data security have reached an all-time high, the PCPD published the *Guidance Note on Data Security Measures for Information and Communications Technology*, which provides recommendations on the following six key areas:

Data governance and organizational measures: First and foremost, data users are recommended to establish clear policies and procedures on data governance and data security, covering aspects such as staff's respective roles and responsibilities in maintaining the information and communications technology (ICT) systems, data security risk assessments, and the outsourcing of data processing and data security work. Regarding manpower deployment, suitable personnel in a leadership role, such as a chief information officer or a chief privacy officer, should be appointed to bear responsibilities for personal data security. Sufficient training should be provided for staff members at induction and regularly thereafter to ensure their familiarity with the requirements under the PDPO and the organization's data security policies and procedures.

Risk assessments: The guidance also recommends data users to conduct risk assessments on data security for new systems and applications before launch, as well as periodically thereafter pursuant to established policies and procedures. Small- and medium-sized enterprises (SMEs), which may not have the relevant expertise, should consider engaging third-party specialists to conduct security risk assessments. Results of risk assessments should be reported to the senior management, and security risks identified should be addressed promptly.

Technical and operational security measures: A data user should put in place adequate and effective security measures to safeguard the information and communications systems and personal data in its control or possession based on the nature, scale and complexity of the ICT and data processing activities, as well as the results of risk assessments.

Data processor management: If data users engage contractors as data processors for processing personal data, they should ensure that contractual or other means are adopted to safeguard the security of personal data transferred to data processors. The guidance recommends actions for data users to take before and when engaging a data processor.

Remedial actions in the event of data security incidents: Timely and effective remedial actions taken by a data user after the occurrence of a data security incident will help reduce the risks of unauthorized or accidental access, processing or use of the personal data affected. The guidance offers examples on remedial actions that a data user may take following a data security incident.

Monitoring, evaluation and improvement: Nowadays, it is increasingly common for an independent contractor to be commissioned by the data user to monitor the compliance with the data security policy and periodically evaluate the effectiveness of the data security measures. We recommend improvement actions be taken for non-compliant practices and ineffective measures.

Conclusion

As many accountants or chief financial officers are also responsible for overseeing and ensuring the proper operation of the information systems of their respective organizations, accountants or CFOs are recommended to keep themselves abreast of the latest developments and measures in safeguarding data security. I believe that the guidance will help organizations and businesses, especially SMEs, in Hong Kong strengthen their data security systems and mitigate data security threats, thereby enabling them to gain a competitive edge in today's digital economy.

SECOND OPINIONS: WHAT IS CRITICAL TO EFFECTIVELY MEETING THE ISSB STANDARDS?

CYRUS CHEUNG
PARTNER, ESG DISCLOSURE AND CONSULTING AT PWC, DEPUTY CHAIRMAN OF THE INSTITUTE'S SUSTAINABILITY COMMITTEE, AND AN INSTITUTE MEMBER

With the final International Sustainability Standards Board (ISSB) standards under discussion and the Hong Kong Stock Exchange's (HKEX) affirmation that the ISSB is the way forward, it is prime time for companies to take action to prepare for effectively meeting the ISSB standards.

Early preparation is critical. With the ISSB standards expected to be issued in the near future, companies will benefit from getting ready now – taking the time to understand the standards' expectations, onboard and upskill relevant internal stakeholders, as well as implement action steps so that the company is in a state of readiness when there is a time-bound deadline and it becomes mandatory to report in line with the ISSB.

A practical way of getting prepared is performing a gap analysis to understand your gaps and biggest "win areas." A gap analysis against the ISSB standards can be a worthwhile exercise, as they already encompass several globally used standards, such as Sustainability Accounting Standards Board standards and the Task Force on Climate-related Financial Disclosures recommendations. You can consider taking into account commonalities across additional environmental, social and governance (ESG) standards and frameworks, such as the United Nations Sustainable Development Goals, and industry-specific focus areas from ESG rating bodies, to maximize the benefits of this exercise. Use these findings to inform where you are leading and lagging to effectively meet the ISSB standards, as well as prioritize actions for your short, mid and long-term ESG strategy.

This exercise will also yield insights into your company's key challenges relating to ESG. Common challenges we have heard from companies across industries include scenario analysis and gathering data for Scope 3 emissions – both required by the ISSB. Scope 3 emissions pose a set of unique challenges, from difficulties in obtaining quality data to a wide scope and lack of clear accountability. Before gathering data, it is important to define your scope and identify relevant Scope 3 categories – consider criteria including to what extent they contribute to your total anticipated Scope 3 emissions and your risk exposure.

With scenario analysis, in the lead up time before the standards are finalized, consider preparing your company by starting with qualitative scenario analysis to evaluate resilience, before maturing to partially qualitative and quantitative, and ultimately more quantitative for increased rigor. With no overnight solution to these challenges, start now to upskill your internal staff and engage external support where needed to prepare well.

I encourage you to take this opportunity to revisit your ESG strategy, enhance your governance structure, and ultimately increase your company's long-term value. *(Natalyn Pow, Senior Associate, ESG Disclosure and Consulting at PwC, contributed to this response.)*

"A gap analysis against the ISSB standards can be a worthwhile exercise, as they already encompass several globally used standards."

HENDRIK ROSENTHAL
DIRECTOR, GROUP SUSTAINABILITY AT CLP HOLDINGS LIMITED, AND A MEMBER OF THE INSTITUTE'S SUSTAINABILITY COMMITTEE

Companies will need to first research and prepare the data required to meet the ISSB standards. For instance, following last year's consultation, the ISSB announced that they would make the disclosure of Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and the use of climate-related scenario analysis mandatory. This requires companies to move GHG accounting to the next level of sophistication, but luckily data management tools have become more widely available to streamline this process.

Moreover, the Global Reporting Initiative Standards and the European Sustainability Reporting Standards have been included by the ISSB as sources of guidance that companies may consider. This important step of alignment should address any lingering confusion about reporting standards.

The earlier companies familiarize themselves with ESG data management and reporting trends, the more value they will be able to derive from adopting the ISSB standards. After all, reporting is not just for the sake of disclosure, but also a means to assess business strategy and overall alignment of corporate efforts to adopt sustainability. As part of ESG data management, a credible, independent assurance framework will also be crucial to the implementation of the forthcoming standards. As the valuation and assurance of the financial implications of an entity's significant sustainability and climate-related risks and opportunities would be an integral part of the new disclosures, the market will need further guidance on how to make financial estimates over a long-time horizon, and have them assured to ensure data quality.

Looking ahead, preparers are encouraged to keep their eyes on some major developments with the International Organization of Securities Commissions (IOSCO). This includes their collaboration with the International Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants to develop profession-agnostic standards that support the assurance of sustainability information. For the IFRS sustainability disclosure standards to be embraced globally, they are set to undergo IOSCO's assessment. If endorsed, IOSCO members will be able to use the standards to establish sustainability disclosure requirements in their respective jurisdictions.

> "Reporting is not just for the sake of disclosure, but also a means to assess... alignment of corporate efforts to adopt sustainability."

In Hong Kong, companies may anticipate the localization of the standards through the concerted efforts of the Securities and Futures Commission, HKEX and the Hong Kong Institute of CPAs. This is expected to provide clarity on how to ensure disclosures are in line with mandatory reporting requirements.

DAVID MADON
DIRECTOR, SUSTAINABILITY, POLICY AND REGULATORY AFFAIRS, AT INTERNATIONAL FEDERATION OF ACCOUNTANTS

At International Federation of Accountants (IFAC), we believe that the ISSB's global baseline of sustainability reporting requirements will finally allow sustainability-related information to take its place alongside traditional financial reporting.

Sustainability or ESG risks and opportunities need to be integrated into the way companies think – in the board room, among senior management, and in the way strategies, business models, and decisions are made. In other words, from an IFAC point of view, sustainability starts inside of companies – so this is where the success of ISSB standards also starts.

The ISSB's Partnership Framework focuses on "capacity building." This applies to companies, and the professionals who work within them, who must apply the S1 and S2 standards as reporting shifts from voluntary disclosures to mandatory requirements. Accounting and finance teams are key in making this transition. Information silos that may exist within companies – between chief financial officers and sustainability officers, for example – are barriers to decision-making for long-term value creation and must be bridged or broken down. This will enhance the way companies communicate with investors and other stakeholders.

> "For ISSB standards to achieve this potential, we need jurisdictions to require high-quality ISSB disclosures."

Sustainability disclosures under ISSB standards must be trusted if they are going to influence capital allocation decisions. ESG information must be "on par" with financial information and, where material, disclosed at the same time. Therefore, the expertise of accounting and finance professionals working inside of companies is needed to enhance the reliability and usefulness of information, and assurance by independent assurance practitioners is required to provide additional confidence.

We refer to all of this as adopting an "integrated mindset" inside of companies that will drive financial and sustainability reporting – not as a compliance exercise – but as a reporting transformation that helps deliver more sustainable businesses. But, for ISSB standards to achieve this potential, we need jurisdictions to require high-quality ISSB disclosures. In other words, the global baseline of ISSB requirements must become local reporting requirements.

IFAC has issued helpful guidance on the issues and processes that IFAC member organizations should discuss with their local authorities – examining the existing mechanisms already in place for using the International Accounting Standards Board financial reporting standards and determining if the same, or a different approach, is needed to implement ISSB disclosures for ESG. This process will take time, so now is the time to start the conversation.

FIVE QUESTIONS FOR PAIB

Eileen Li

Operations Manager at HashKey Capital, and an Institute member, is responsible for the blockchain technology and digital assets venture capital fund's financial-related matters, as well as monitoring the daily operations of the funds. She shares her views on the potential of decentralized finance

What are the biggest lessons in your career so far? The importance of having a passion for your work and engaging in continuous learning. Working in the rapidly evolving FinTech and blockchain industry demands staying abreast of new technologies and trends. In 2017, initial coin offerings (ICOs) were the talk of the town, then in 2020 and 2021, people were crazy about decentralized finance (DeFi), Play-to-earn, and non-fungible tokens. Currently, "Zero-Knowledge proof," which refers to a way of proving the validity of a statement without revealing the statement itself, is the new buzzword. Even though I work in the middle-back office, having a good understanding of new trends remains essential as I must be able to convey technical concepts in simple language to those unfamiliar with this industry.

What attracted you to the crypto industry? In 2017, I was introduced to the world of cryptocurrency through a classmate at university. She had left audit and begun working as a finance manager in a crypto venture capital (VC) firm, and was also investing in crypto. She influenced me to buy my first Ethereum and I participated in my first ICO project. In 2021, the crypto market experienced a bull run, prompting me to join HashKey Capital. The year 2021 was also the year for DeFi, especially for the blockchain sector. This trend, which can potentially offer users financial freedom and privacy, was another thing that attracted me.

In what ways has your CPA qualification helped you in your career? My CPA knowledge allows me to manage the fund's financials effectively. I possess a basic understanding of the legal and regulatory framework that governs financial reporting and license applications. This is particularly critical in the crypto industry, which is subject to various legal and regulatory requirements. The qualification has also equipped me with the soft skills that are crucial in a finance and operations management role, where precision and analytical abilities are essential to success.

What was your reaction following the events last year, such as the collapse of FTX? I think it was a reminder that the industry is still in its early stages of development and that there are many challenges and risks that need to be addressed. However, the incident is not the fault of blockchain or crypto itself. Rather, it is the result of bad actors taking advantage of the lack of transparency on centralized exchanges and intermediaries, as well as the poor design of the native token of the FTX ecosystem. It is an example of why we need DeFi. Decentralized protocols have transparent code and behave as programmed, making it difficult for any fraudulent activities to occur. All transactions and accounts are fully transparent on-chain, increasing trust and credibility.

What growing trends in the blockchain and virtual assets space are you most excited about? We are particularly excited about the evolving regulatory frameworks for virtual assets, especially in Hong Kong, as the industry continues to grow and face unique challenges and risks. On 31 October 2022, the Hong Kong government issued a policy statement emphasizing its commitment to creating a facilitating environment for the sustainable and responsible development of virtual assets, including the establishment of a new licensing regime for virtual asset service providers and pilot projects to test blockchain and virtual asset technologies for the benefit of the financial markets.

FIVE QUESTIONS FOR PAIP

Ambrose Chan

Partner at United CPA & Co., and Institute member, on what makes the working culture at smaller firms special, and why small- and medium-sized practices should focus on building strong relationships with clients

What are the biggest lessons in your career so far? One is the importance of communication. For auditors, effective communication is critical to ensuring that all parties understand the audit process, the results of the audit, and any recommendations for improvement. Another one is the importance of attention to detail and thoroughness, particularly as we review large amounts of financial data and documentation to identify potential issues and areas of risk. This requires a high level of attention to detail and a commitment to thoroughness to ensure no issues are overlooked. Last but not least is the importance of adaptability and flexibility. The business environment is constantly changing, and auditors must be able to adapt to these changes and adjust audit procedures.

What do you like most about working at a small- and medium-sized practice (SMP)? SMPs offer a more personalized service, where staff can work closely with clients and develop strong relationships with them. They can also offer more opportunities for professional growth and development, as it's common for staff to take on a wider range of responsibilities. The working culture is often more collaborative and team-oriented, with staff working together to solve complex problems and achieve goals. This can lead to a more supportive and motivating work environment, where staff feel valued and appreciated for their contributions.

In what ways has your CPA training helped you in your career? It enhanced my credibility. It signifies that the individual has met rigorous standards and has a deep understanding of accounting principles and regulations. My clients, therefore, can rely on my professional services and advice to make better business decisions. It has also expanded my professional network. Lastly, the diversity of the training enabled me to offer a wide range of services to clients, which helps me to expand my client base.

What are the key challenges that SMPs are currently facing? Regulatory updates and changes in auditing standards can be overwhelming for SMPs. Attracting and retaining top talent is another struggle. Most audit firms – not only SMPs – are working hard to find ways to offer competitive compensation packages and opportunities for career growth to retain staff. Of course, with limited resources, it can also be challenging for SMPs to manage costs effectively.
To overcome these challenges, my firm is taking several steps including increasing workplace flexibility; investing in training and development; and embracing technology. Adopting technology can help SMPs streamline the operations and reduce costs.
I also think there should be a focus on client service. SMPs should focus on building strong relationships with clients and providing services that meet their needs and exceed their expectations.

Tell us about your firm's digital transformation journey so far. We have subscribed to a well-known cloud-based platform to enable us to collaborate with clients more effectively. It's used for document sharing and communication, providing real-time access to audit findings and reports. In the long term, we aim to use automation tools to streamline the audit process and reduce the time spent on the repetitive tasks. Some software vendors are developing "report generation tools" and "workflow automation tools" for SMPs, which we will look out for.

Welcome

Hong Kong's CPA Qualification
香港會計師專業資格

QP Graduates – December 2022 Session

The Institute is pleased to announce that 811 QP candidates successfully completed the Qualification Programme in the December 2022 Session. The list of graduates is as below.

ARONGGAOWA, -
AU YEUNG, Wing Tung
AU, Ching Hei
AU, Kam Ho
AU, Tsz Hin
AU, Tsz Yan
AU, Wing Yan
AU-YEUNG, Kit Yan
BAI, Yunbo
BHATTI, Harman Preet Singh
CAI, Liwei
CAI, Lvyu
CAI, Meiqi
CAI, Xiumin
CAI, Yunzhi
CAO, Dingran
CAO, Yingbo
CHAN, Chak Hei Andrew
CHAN, Chau Ho
CHAN, Chi Ching Charmaine
CHAN, Chi Hang
CHAN, Ching Yee
CHAN, Chun Hei Jowett
CHAN, Chun Yin
CHAN, Doi Hang
CHAN, Fung Kwan
CHAN, Hau Yi
CHAN, Hei Lun
CHAN, Hing Kwok
CHAN, Hiu Ki
CHAN, Ho Lam
CHAN, Hoi Ching Jennifer
CHAN, Hoi Yin
CHAN, Ka Ching
CHAN, Ka Chun
CHAN, Ka Ying
CHAN, Kai Nam
CHAN, Kit Ying
CHAN, Kwan Long
CHAN, Lok
CHAN, Lok Yan Stephenine
CHAN, Lok Yee
CHAN, Long Hei Catherine
CHAN, Man Chung
CHAN, Man Ha
CHAN, Mok Fan
CHAN, Pak Hei
CHAN, Shuk Wah
CHAN, Sing Fung
CHAN, Siu Fung
CHAN, Sze Hon
CHAN, Sze Wai
CHAN, Tak Luen, Timothy
CHAN, Tsz Ho
CHAN, Tsz Lok
CHAN, Tsz Shan
CHAN, Tsz Wa
CHAN, Tsz Wing

CHAN, Tsz Yan
CHAN, Tsz Yin
CHAN, Uen Ting
CHAN, Wai Chi
CHAN, Wai Ching
CHAN, Wai Hang
CHAN, Wai Ki
CHAN, Wai Ping
CHAN, Wai Yan
CHAN, Wang
CHAN, Wing Leung
CHAN, Wing Sang
CHAN, Wing Tak
CHAN, Wing Yi
CHAN, Yan Ling
CHAN, Yee Ki
CHAN, Ying Tung
CHAN, Yue Lun
CHAN, Yuen Ting
CHAN, Yuk Yin Anthony
CHAN, Yun Fung, Denley
CHANG, Hiu Wah
CHANG, Liwan
CHAU, Jonathan
CHAU, Tsz Ching
CHAU, Yu Yeung
CHAU, Yuen
CHEN, Dongpeng
CHEN, Haolin
CHEN, Lu
CHEN, Lu
CHEN, Weiye
CHEN, Xiaorou
CHEN, Xinyan
CHEN, Yijun
CHEN, Yingjie
CHEN, Yunyu
CHEN, Zhiyu
CHENG, Boya
CHENG, Chiu Kan
CHENG, Chun Fung Matthew
CHENG, Chung Hin
CHENG, Hei Man
CHENG, Hiu Yi
CHENG, Hoi Tung Hilda
CHENG, Sau Ming
CHENG, Shing Hong
CHENG, Tsz Chun
CHENG, Ye
CHENG, Ying Lam
CHEUNG, Bok Hin
CHEUNG, Cheuk Lam
CHEUNG, Chi Hang
CHEUNG, Ching Man
CHEUNG, Chun Hin
CHEUNG, Ka Wing
CHEUNG, Ka Ying
CHEUNG, King Man

CHEUNG, King To
CHEUNG, Lai Wa
CHEUNG, Nga Yui
CHEUNG, Ping Faat
CHEUNG, Sin Ching
CHEUNG, Siu Ming
CHEUNG, Tsz Ting
CHEUNG, Wai Lam
CHEUNG, Yat Kwan
CHEUNG, Yee Nok
CHEUNG, Yee Nok Enoch
CHEUNG, Yik Huen Joyce
CHEUNG, Yin Ying
CHI, Yee Ching
CHIEH, Yan Lam Yuki
CHIN, On Ki
CHIN, Tsz Ying
CHING, Man Wa
CHIU, Chun Hong
CHIU, Hoi Lam
CHIU, Yau Chun
CHIU, Yuet Wa
CHO, Ka Man
CHOI, Chau Yi
CHOI, Fu Kit Sheldon
CHOI, Hong Yi
CHOI, Howie
CHOI, Ka King Andy
CHOI, Kai Chit
CHOI, Wei Xiang, Andy
CHONG, Ching Man
CHOW, Cheuk Lam
CHOW, Chi Leong
CHOW, Ching Man
CHOW, Chit
CHOW, Ho Him
CHOW, Ho Yan
CHOW, Jit Lam Vincent
CHOW, Ka Man
CHOW, Ka Man
CHOW, Suen Wang
CHOW, Tsz Nok
CHOW, Wing Tung
CHOY, Josephine Shing-yin
CHOY, Mei Wa, Catherina
CHU, Jessica Ji Nuo
CHU, Ka Yin
CHU, Mei Fong
CHU, Wai Ting
CHU, Yeuk Sun
CHU, Yin Yi, Priscilla
CHUANG, Lai Ting
CHUN, Wing Man
CHUNG, Hiu Tung
CHUNG, Ka Wai Christie
CHUNG, Kit Yan
CHUNG, Wai Ching
CHUNG, Yu Chit

DAI, Hailong
DENG, Wei
DENG, Xialan
DENG, Xuyu
DENG, Yongzhen
DING, Xin Yee Christine
DONG, Jiawen
FAN, Chun Ying
FAN, Hiu Ting
FAN, Ho Ting
FAN, Jiawei
FAN, Ka Ki
FAN, Lok Man
FAN, Ziyuan
FANG, Xian
FANG, Zijing
FENG, Siqi
FOK, Kei Tung
FONG, Chi Leung
FU, Hiu Lam
FUNG, Chi Ho
FUNG, Ching Man
FUNG, Ho Yin
FUNG, Ka Chun
FUNG, Ka Lok, Carey
FUNG, Ka Yee
FUNG, Kei Lap Michael
FUNG, King Him
FUNG, Santo Cho Chak
FUNG, Siu Po
FUNG, Tsz Cheuk
FUNG, Tsz Yan
GAN, Siew Yin
GAO, Xin
GAO, Yang
GAO, Yuan
GENG, Xiaolin
GIM, Pik Wah
GONG, Yuejiao
GU, Chenyi
GU, Hongbo
HA, Sze Wan
HAN, Shichen
HAN, Siu Wai
HAO, Tong
HE, Xiaoping
HE, Zhiying
HIE, Li Li
HO, Chi Ping
HO, Ching Tak
HO, Hiu Man
HO, Hiu Yan
HO, Ho Lam
HO, Hon Tim
HO, I Ting
HO, Ka Wai
HO, Kam Wing
HO, Kwan Tung

HO, Lok Yi
HO, Sheung Him
HO, Siu Lun
HO, Sze Yin
HO, Tsz Ching
HO, Tsz To
HO, Wing Chun
HO, Wing Hei
HO, Wing Tsun
HO, Yeuk Lam
HO, Yin Ni
HON, Chun Pong
HSUEH, Yu Yu
HU, Duoyao
HU, Jianfeng
HU, Shan
HU, Xueting
HU, Zimu
HUANG, Ka Kin
HUANG, Xi
HUANG, Zeyuan
HUI, Chau Kwan
HUI, Cheung Pok
HUI, Ka Chai
HUI, Nga Ting
HUI, Sau Man
HUI, Siu Chung Adonis
HUI, Siu Kwan
HUI, Ting
HUI, Tsz Hei
HUI, Wan Yat
HUNG, Ka Wing
HUNG, Nga Yi
HUNG, Suet Yu Alice
HUNG, Yan Ting
IP, Ching Tat
IP, Ching Yi
JIANG, Yuyang
JIU, Hiu Yuen
JUNG, Jooyeon
KAM, Hok Lai
KAM, Suet Yi
KAM, Tsz Sin, Vinnie
KAN, Hoi Ki
KAN, Lok Fung Matthew
KAY, Wai Yiu
KEI, Hiu Fong
KEUNG, Hei Wa
KHOR, Sook Wen
KI, Chi Man
KIM, Ji Eun
KO, Hiu For
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KO, Sze Man
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KOK, Tsz Ying
KONG, Lai Shan
KONG, Man Gi

KONG, Yan Sin
KOO, Siu Lun, Andy
KOO, Sze Lai
KWAN, Cheuk Ki
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KWOK, Chun Hei
KWOK, Chun Yeung
KWOK, Hiu Yan
KWOK, Ho Ching
KWOK, Ho Ying
KWOK, Ka Yan
KWOK, Ka Yee Kaye
KWOK, Pui Yan Michelle
KWOK, Pui Yu Emily
KWOK, Yi Wing
KWOK, Yuen Ching
KWONG, Ming Tak
KWONG, Pak Hei
KWONG, Tsz Hong
LAI, Cheuk Shing
LAI, Chi Shing
LAI, Chun Ming
LAI, Hing Ping Rachel
LAI, Hon Ming
LAI, Ka Ling
LAI, Sze Ling
LAI, Tat Chung
LAI, Tsz Ying
LAI, Wai Chi
LAI, Yi Lui
LAM, Alfred Ka Hong
LAM, Alice
LAM, Chak Kai
LAM, Chi Mong
LAM, Chin Fung
LAM, Hiu Lung, Reeve
LAM, Ka Chun
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LAM, Kwong Ngai
LAM, Lok Hin
LAM, Lok Ngai
LAM, Lok Yiu
LAM, Man Man
LAM, Pok Yin
LAM, Siu Man
LAM, Tsz Ching
LAM, Tsz Kuen
LAM, Wing Ho, Michael
LAU, Cheuk Shing Aiden
LAU, Chi Hin
LAU, Chun Kit
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LAU, Ho Yin
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LAU, Kai Ying
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LEE, Marina Mannyu
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LEE, Wing Chuen
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LEE, Wing Sze
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LEE, Ying Hei
LEI, Lu
LEI, Sin Tung
LEUNG, Chi Chiu
LEUNG, Chi Wai
LEUNG, Chung Him
LEUNG, Hoi Kei
LEUNG, Jannelle Rosalynne
LEUNG, Ka Ki
LEUNG, Ka Ming
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to Success

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LI, Yetong
LI, Ying On
LI, Yingshi
LI, Yu Sing
LI, Zhao
LIANG, Liwei
LIANG, Yuping
LIAO, Qi
LIAUW, Charlene Cheuk Ying
LIM, Xin Ying
LIN, Chun Yin
LIN, Daoyu
LIN, Sin Yi
LIN, Xiaocui
LIN, Xingchen
LING, Ka Kei
LIU, Alvin
LIU, Chengen
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LIU, Jingyun
LIU, Justin
LIU, Liwei
LIU, Mei Kei Maggie
LIU, Shing Fung
LIU, Yat Lai
LIU, Yingxin

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LU, Sai
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LUI, Nok Yee
LUI, Pui Yi
LUI, Rachel
LUI, Yin Kwan, Ben
LUI, Yin Yi
LUI, Yui Lun
LUN, Debby Tin-yan
LUO, Hanxi
LUO, Huizi
LUO, Jinying
LUO, Wangshu
MA, Ho Hin
MA, Ho Yeung Victor
MA, Kit Ki
MA, Lok Man
MA, Man Hin Navin
MA, Yan Lam
MA, Yui Pan
MAK, Chi Wun
MAK, Ho Fai Humphrey
MAK, Ka Yui
MAK, Kin To
MAK, Sarina Pui Gar
MAK, Shiu Nung, Peter
MAK, Yuk Ting
MAN, Nga Ching
MAN, Wai Tat
MATEO, Kaye Cyril Balcita
MOK, Chung Ming
MOK, Hiu Ki Christie
MOK, Ho Sum
MOK, Hoi Lam
MOK, Ka Chun
MOK, Ka Man
MOK, Kam Fei
MOK, Kar Yan
MOK, King Shing
MOK, Tsz Huen
MOK, Wing Ting
MOK, Yee Ki

MOK, Yuen Mei Winnie
MOU, Junjie
NG NG, Britney Emilia
NG, Chi Yan
NG, Chin Lok
NG, Chun Hong
NG, Hoi Ying
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NG, Ka Ka
NG, Ka Man
NG, Ka Po
NG, Ka Sing
NG, King Yiu
NG, Kwai Yin
NG, Kwan Yin
NG, Mio Fan
NG, Pui Man
NG, Tan
NG, Tsz Chung
NG, Wing Kei
NG, Wing Lung
NG, Yee Ki
NG, Yuk Pong
NGAI, Jennifer Wing Yee
NGAI, Ka Yan
NGUYEN, Le Cam Van
NIE, Jiayi
NING, Xiao
OR, Tsz Kwan
OR, Ying Ying
PAN, Anqi
PANG, Carson
PANG, Cheuk Fung Victor
PANG, Chun Kit
PANG, Hiu Chi
PANG, Lo Lam
PANG, Tak Tai
PANG, Tsz Chun
PENG, Xiaolin
PENG, Xuemeng
POON, Sheung Fung
PUN, Chun Ken
PUN, Sum Yu Jane
REN, Jinhui
SHE, Hiu Man
SHEN, Ting
SHEN, Yichuan
SHI, Jiadong
SHI, Ki Ki
SHI, Xiaohan
SHIN, Eunbee
SHIU, Man Lee
SHIU, Yin Kit
SIN, Bo Yin
SIN, Sui Yiu
SIU, Ho Yan
SIU, Iu
SIU, Ming Yuet

SIU, Sin Lam
SIU, Tsz Fung
SIU, Wing Kam
SO, Chun Lok
SO, Hoi Kei Rebecca
SO, Pak Kei
SO, Wai
SO, Wai Lam
SO, Wing Sze
SOH, Yee Xin
SUEN, Hei Hang, Hazel
SUN, Yiyi
SZE, Wai Hung
SZETO, Wai Ho
TAI, Chung Tat Kevin
TAI, Ka Chun
TAI, Ka Ho
TAI, Lee Lee
TAM, Cheuk Ho Stephen
TAM, Chun Sing Jason
TAM, Hoi Ching
TAM, Man Chi
TAM, Sin Yi
TAM, Sze Man
TAM, Wai Fong
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TAM, Wing Ting Lincoln
TAM, Wing Yu
TAN, Yingying
TANG, Chun Hei
TANG, Hoi Kei, Angela
TANG, Hon Leung
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TAO, Ran
TIAN, Su
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TSANG, Chin Ching Chloe
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TSANG, Man Sin
TSANG, Shun Ying
TSANG, Tsz Ki
TSANG, Tze Hin Herbert
TSANG, Wang Dan
TSANG, Yee Priscilla
TSE, Ka Ho
TSE, Man Yi
TSE, Nim San
TSE, Wing Ho

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TSE, Yiu Fung
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TSOI, Yuet Yam
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TSUI, Siu Nam
TSUI, Tsoi Yu Chloe
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WAN, Chun Hong Boris
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WONG, Yun Ping
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WOO, Zu Er
WU, Haoying
WU, Kam Hei
WU, Kwan Ho
WU, Ming Ho
WU, Peng-Hua
WU, Shuchen
WU, Xinni
WU, Yuhong
WU, Ziqian
XIA, Ting
XU, Jia
XU, Li
XU, Tong
XU, Wenrui
YAN, Chak Bong
YAN, Chi Shing
YAN, Hoi Yan
YAN, Yang
YANG, Anrong
YANG, Yidi
YANG, Yuting
YAU, Chi Keung
YAU, Fung Yi
YAU, Ho Yin
YAU, Jason Yinfung
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YEH, Chak On
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YEUNG, Sheung Sheung

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YEUNG, Yuk Hong
YIM, Ming Yee
YING, Tian
YIP, Chi Ho
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YIP, Ka Wai
YIP, Kwun Ting Melody
YIP, Willis
YIU, Chung Yi
YIU, Hing Wah
YIU, Man Yin
YIU, Wing Yan, Candy
YU, Ho Cheung
YU, Ka Yu
YU, Kin Fai
YU, Nga Sze Michelle
YU, Ning
YU, Rosemary Wing Hey
YU, Wing Yee
YU, Xiao
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YU, Yejie
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YU, Ziyan
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ZHAO, Ke
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ZHAO, Yinuo
ZHAO, Yueting
ZHENG, Tongyin
ZHONG, Ming
ZHU, Chenyue
ZHU, Congying
ZHU, Yingnan
ZHU, Zhihui
ZONG, Rui
ZUO, Mengran

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Classification of liabilities as current or non-current: what's new?

An overview of the key changes from the current HKAS 1 due to the amendments issued in 2020 and 2022

Background

Hong Kong Accounting Standard (HKAS)/ International Accounting Standard (IAS) 1 *Presentation of Financial Statements* specifies the requirements of how entities classify liabilities as current or non-current.

In 2020, the International Accounting Standards Board (IASB) issued amendments to IAS 1 *Classification of Liabilities as Current or Non-current* (2020 Amendments) which clarified certain aspects of how entities classify liabilities as current or non-current. One of the key amendments relates to the classification of liabilities subject to covenants. In particular, the amendment specified that if an entity's right to defer settlement of a liability is subject to compliance with specified conditions, the right exists at the end of the reporting period only if the entity complies with those conditions at the end of the reporting period.

Stakeholders were concerned about the impact of this amendment and as a result, the IFRS Interpretations Committee (IC) published a tentative agenda decision explaining how to apply the amendment to particular fact patterns. Respondents to the tentative agenda decision raised concerns about the outcomes and potential consequences of the amendment in some situations. The IC reported this feedback to the IASB, highlighting new information that the IASB had not considered when developing the amendment. Having considered the new information, the IASB issued further amendments to IAS 1 *Non-current Liabilities with Covenants* (2022 Amendments) in 2022.

The Institute issued the equivalent 2020 and 2022 Amendments in August 2020 and December 2022, respectively. At the same time, the Institute also updated Hong Kong Interpretation 5 (Revised) *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* (HK Int 5) to incorporate the references to the 2020 and 2022 Amendments. The conclusions in HK Int 5 are not impacted by these amendments.

What's new compared to the existing requirements in HKAS 1?

The key changes from the current HKAS 1 due to the 2020 and 2022 Amendments are summarized as follows:

Right to defer settlement for at least 12 months

The word "unconditional" has been removed from paragraph 69 of HKAS 1 so that this paragraph no longer refers to an "unconditional" right to defer settlement. A new paragraph has been added which requires that an entity's right to defer settlement for at least 12 months after the reporting period must have substance and exist at the end of the reporting period.

Liabilities with covenants

An entity's right to defer settlement may be subject to its compliance with covenants specified in a loan arrangement. The 2022 Amendments clarify that covenants with which an entity must comply after the reporting date do not affect the classification of a liability as current or non-current at the reporting date. However, covenants with which an entity is required to comply on or before the reporting date affect the classification, even if the covenant is assessed only after the entity's reporting date. See Diagram 1.

Management's expectations

The 2020 Amendments explicitly clarify that a liability's classification as current or non-current is unaffected by management's intentions or expectations about whether an entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting period.

Settlement by way of own equity instruments

The 2020 Amendments clarify the meaning of "settlement" for the purpose of classifying a liability as current or non-current. Settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of cash, goods or services, or the entity's own equity instruments.

In addition, the amendments clarify how an entity classifies a liability that can be settled in its own equity instruments, e.g. convertible debt. If a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current if the conversion option is accounted for as equity under HKAS 32 *Financial Instruments: Presentation*. In other cases, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current (e.g. if an obligation to transfer equity instruments is accounted for as a derivative). See Diagram 2 and refer to section 10 of the Institute's *Financial Reporting, Auditing and Ethics Alert 37 Financial Reporting Considerations to Close Out 2020* for examples.

Disclosure requirements

The 2022 Amendments introduced additional disclosure requirements for

Diagram 1: Liabilities with covenants

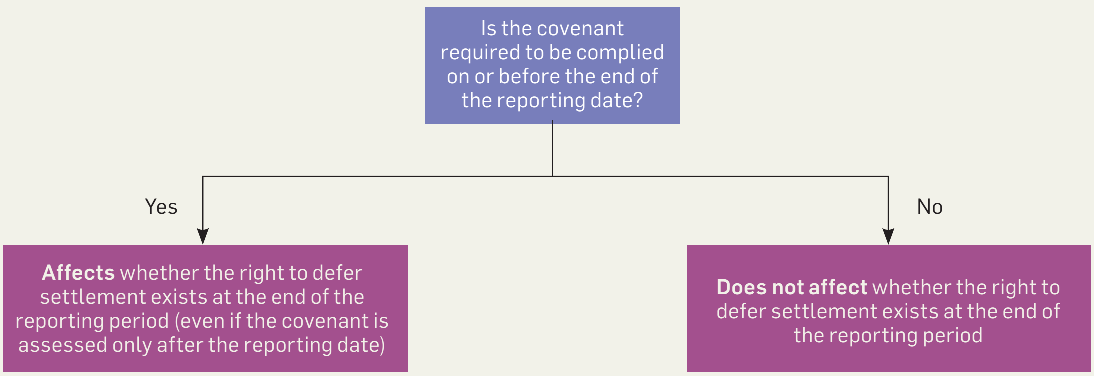
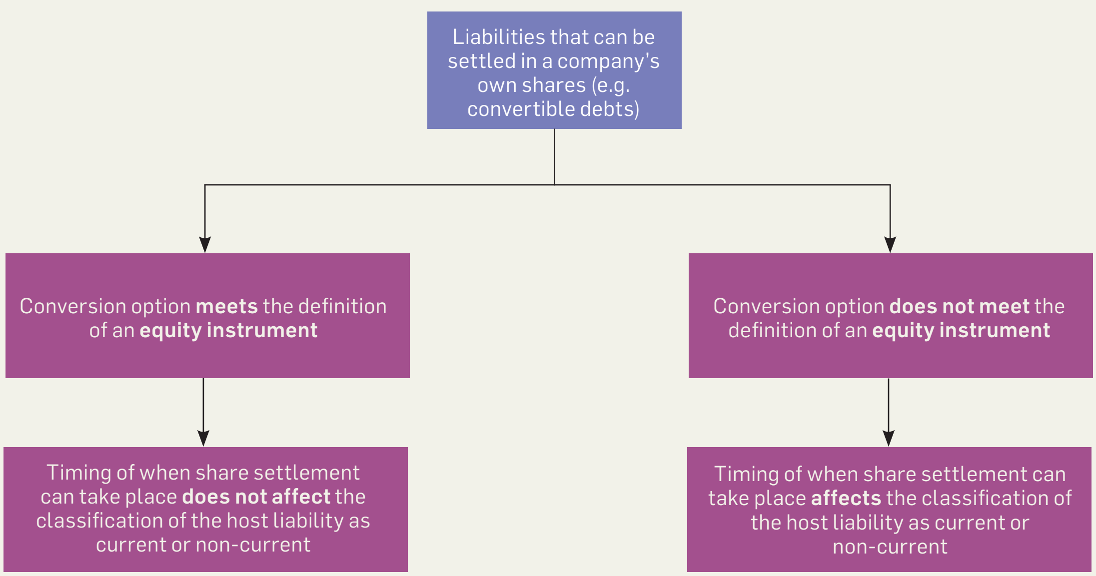


Diagram 2: Settlement by way of own equity instruments



non-current liabilities that are subject to future covenants. The disclosures aim to enable investors to assess the risk that the liabilities could become repayable within 12 months. These disclosures include i) information about the covenants with which the entity is required to comply; and ii) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants.

Transition and effective date

Both the 2020 and 2022 Amendments are to be applied as a package and are effective for annual reporting periods beginning on or after 1 January 2024, with early adoption permitted. Entities will need to apply these amendments retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Act now to assess the impact

Both the 2020 and 2022 Amendments affect only the presentation of liabilities as current or non-current in the statement of financial position and disclosure of liabilities in the notes to the financial statements, and not the recognition or measurement of these liabilities. However, the amendments could result in entities reclassifying some liabilities from current to non-current, and vice versa, potentially affecting those entities' compliance with loan covenants. Consequently, entities are recommended to assess the potential impact of the amendments early, and if the amendments could result in the reclassification of certain liabilities from non-current to current, entities may want to consider renegotiating covenants or agreements with the banks or other financial institutions.

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

Proposed amendments to the *IFRS for SMEs* Accounting Standard

A summary of the Institute's response to the IASB Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*

In September 2022, the International Accounting Standards Board (IASB) published an exposure draft (ED) to propose amendments to the *International Financial Reporting Standard for Small and Medium-sized Entities* (*IFRS for SMEs*) Accounting Standard. The objective of the ED is to update the *IFRS for SMEs* Accounting Standard to reflect improvements that have been made in full IFRS Accounting Standards while keeping the standard simple for SMEs.

The IASB is proposing amendments to the equivalent sections of the *IFRS for SMEs* Accounting Standard for the IFRS Accounting Standards set out in the diagram on page 33. The proposals reflect stakeholders' feedback on the Request for Information published in 2020 as part of its Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard and the advice from the IASB's SME Implementation Group.

The IASB had considered IFRS 16 *Leases* but did not propose any amendments to this topic in the *IFRS for SMEs* Accounting Standard. The IASB considered that aligning the standard with IFRS 16 at this time may impose workload on SMEs disproportionate to the benefit to users of their financial statements, and it is more appropriate to consider such alignment after the post-implementation review of IFRS 16.

The Institute's Standard Setting Department responded to the ED in February this year. The Institute's submission is available on its website.

In Hong Kong, the majority of the SMEs either prepare their financial statements under the Institute's home-grown *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard* or full Hong Kong Financial Reporting Standards (HKFRS) Standards. The extent of application of the *HKFRS for Private Entities* (i.e. the local version of *IFRS for SMEs* Accounting Standard) is relatively limited in Hong Kong. Considering the limited use of the *HKFRS for Private Entities* in Hong Kong, we primarily commented on the following proposals in the ED. This article summarizes our major comments on the ED.

Impairment of financial assets

Our respondents expressed concern about the proposed application of the expected credit loss (ECL) model on financial assets measured at amortized cost (other than trade receivables and contract assets). In Hong Kong, non-trade related receivables from related parties and business partners are common among SMEs and our respondents anticipated that SMEs would encounter the following practical difficulties when applying the ECL model to these receivables:

a) Non-trade receivables from related parties and business partners are often one-off in nature. Most SMEs do not possess sufficient historical data, such as credit-loss experience, either internally or from its peer group for comparable financial instruments to ascertain the appropriate credit loss rates.
b) The ECL model requires the use of forward-looking information and an estimate of probability and related weighting for formulating multiple forward-looking scenarios. Since SMEs usually have limited resources and expertise, our respondents expressed concern about the practical challenges in identifying and obtaining relevant forward-looking information that is reasonable and supportable for measuring ECL of these receivables.

In view of these challenges, our respondents questioned the quality of impairment information that would be provided by SMEs using the ECL model and whether the accounting outcome would faithfully represent the likelihood of the collection of future cash flows of those non-trade receivables at the reporting date.

Furthermore, SMEs in Hong Kong are usually owner-managed businesses with a limited number of users of their financial statements. Users of SMEs' financial statements generally do not have a strong demand for the more sophisticated information provided under the ECL model on non-trade receivables. In addition, considering the complexity and difficulties for SMEs to apply the ECL model properly, it is doubtful whether the users of SMEs' financial statements would regard the ECL information as truly reliable.

Lastly, the proposals introduce two impairment models for financial assets measured at amortized cost – incurred loss model for trade receivable and contract assets, and the ECL model for all other receivables. We see little merit in having two impairment models for financial assets measured at amortized cost as it would add complexity, create confusion and not meet the principle of simplicity.

In light of the above, we consider that the ECL model would impose undue cost or effort on SMEs and may not significantly improve the usefulness of

Proposed amendments from IFRS Accounting Standards

Source: IASB's Snapshot: Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard*

information about impairment of financial assets held by SMEs. Taking into account the costs and benefits of the proposals, we recommend the IASB retain the incurred loss model for all financial assets measured at amortized cost.

If the IASB were to go ahead with its proposals, we suggested that the IASB:

a) Provide guidance or examples on the practical expedients that SMEs can apply in measuring ECL; and
b) Clarify the considerations for SMEs in assessing the "undue cost or effort" concept in terms of obtaining reasonable and supportable information for measuring ECL, given the model would be more costly for SMEs (as compared to large private or listed entities) to apply.

Revenue from contracts with customers

We generally supported the proposals in the revised section on revenue and considered that they are appropriate for SMEs and users of their financial statements. Nevertheless, we have the following comments and recommendations:

a) Certain proposed simplified requirements of IFRS 15 *Revenue from Contracts with Customers*, for example warranty, involve the evaluation of whether the financial impact of the warranty is "significant to the contract" in order to determine the accounting treatment. Such a requirement does not exist in IFRS 15. To ensure consistent application of the requirement by the SMEs, we recommended that the IASB provide guidance or examples to illustrate how the "significant" concept should be applied in those cases.
b) In order to make the proposed requirements simpler for SMEs to apply, the ED has reframed the principles in IFRS 15 for principal versus agent and the criteria for revenue recognition over time. For the principal versus agent considerations, IFRS 15 stipulates an overarching principle which is supported by three indicators. The ED takes a different approach by listing three criteria (one of which is the overarching principle in IFRS 15) and indicates that an entity would be a principal if any one of the three criteria is met. Also, the criteria for revenue recognition over time has changed from three criteria in IFRS 15 to four criteria in the ED. While we on the whole agree with the IASB's simplification approach, we are concerned that the simplifications made on these two areas may unintentionally result in different accounting outcomes from full IFRS Accounting Standards in certain situations. Accordingly, we recommended the IASB clarify whether the principles and requirements on these two areas are the same under the ED and IFRS 15 to avoid confusion.

Next steps

The IASB will start to deliberate the comments received on the ED in the second quarter of this year and will decide whether to proceed with the proposed amendments to the *IFRS for SMEs* Accounting Standard. Stay tuned for the development of the standard.

*This article was contributed by **Kennis Lee** and **George Au**, Associate Directors of the Institute's Standard Setting Department. Visit our "What's new" webpage for our latest publications, and follow us on LinkedIn for upcoming activities.*

Hong Kong needs an updated intellectual property-related tax regime

A look at intellectual property-related tax issues faced by Hong Kong companies in the innovation and technology sector

Hong Kong has a vision of becoming a hub for innovation and technology (I&T) which builds on the city's high level of literacy and education. This also aligns with the national development strategies, and enables Hong Kong to contribute its strengths to the Greater Bay Area.

The I&T sector involves research and development of various intellectual property (IP) that is new and unique. The legal owner of the IP may commercialize the inventions in various ways such as by building production lines for manufacturing the products. Entrepreneurs may leverage the IP of others by way of acquisition or licensing to enhance the inventions or speed up the commercialization. The IP required may be owned by innovators or entities in other jurisdictions and thus cross-border acquisition or licensing of IP between related and unrelated parties is now very common. The costs associated with the development, acquisition and licensing of IP may not always be deductible for Hong Kong profits tax purposes, which would result in a very high tax cost.

When a Hong Kong company develops IP

Let's assume a Hong Kong company develops certain IP by its employees in Hong Kong. The research and development costs may be deductible for profits tax purposes under the specific provisions under section 16B of the Inland Revenue Ordinance (IRO). Enhanced deduction of more than 200 percent of the relevant costs incurred may be available if the research and development activities are performed in Hong Kong if the qualifying conditions (which are quite complicated and restrictive) are met. In reality, not a lot of taxpayers could enjoy the enhanced deduction as the research and development activities are often not performed in Hong Kong given the high costs of maintaining a research and development team in Hong Kong, and the lack of suitable talent in Hong Kong (these factors explain why a lot of corporations are setting up their research and development centre(s) outside the city). Research and development service fees paid to research and development centres outside Hong Kong would not be entitled to the enhanced deductions.

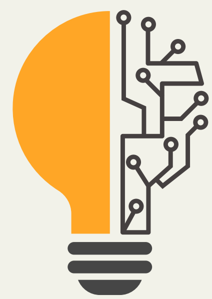
When a Hong Kong company acquires IP

If a Hong Kong company acquires IP from others, the acquisition costs may be deductible under the specific deduction provisions in the IRO, such as section 16E (for purchase of patent rights), and section 16EA (for purchase of specified IP rights, e.g. copyright, registered design, registered trade mark, etc.). The deduction may be available in the year of acquisition (one-off) or over five years starting from the year of acquisition (20 percent per annum). If the IP rights acquired are developed by a group company (e.g. headquarters or the group's research and development hub), no deduction would, however, be allowed if the purchase is between associated persons even if the transaction is at arm's length and commercially genuine. This restricts the applicability of the specific deduction although transfer of IP between group companies is common.

When a Hong Kong company in-licenses IP

The original IP owner may wish to retain the legal ownership, a Hong Kong company may enter into a licensing agreement to obtain the right to use the IP. Commercially, the original IP owner (licensor) may want to receive an upfront licence fee to monetarize the costs invested, plus a recurring royalty which is dependent on the future sales or profits to share the economic success. This fee charging basis is a common market practice in the life science sector. Given the upfront licence fee is one-off for acquiring an asset, producing enduring benefits which enables and upgrades the Hong Kong company's (licensee) income producing capacity, the upfront fee is regarded as capital in nature for profits tax purposes, and specifically disallowed under section 17(1)(c) of the IRO. The licence acquired is an intangible asset where no capital allowances would be available. As the Hong Kong company does not acquire the legal ownership of the relevant IP, the above-mentioned deduction for purchase of IP rights is also not available. The accounting amortization of such licence (if the upfront licence fee is capitalized as an intangible asset) is also not deductible for profits tax purposes.

If the Hong Kong company structures its business properly where it generates offshore sales or offshore royalty income, the non-deductibility of the IP costs may not be a big issue given that the company would be tax neutral due to its income being non-taxable for profits tax purposes. However, things have changed. To respond to the European Union's concerns over potential double non-taxation arising from tax exemption for offshore passive income in Hong Kong, the city enacted its Foreign-sourced Income Exemption (FSIE) regime on 1 January 2023, which covers passive income like interest, dividend, equity disposal gains and IP income (e.g. royalty). Under the current FSIE regime, offshore-sourced patent-related IP income is subject to a nexus ratio in determining the non-taxable (offshore) portion. This would



be favourable if the Hong Kong company carries on many research and development activities itself (however, significant onshore research and development activities may suggest that the royalty income should be onshore-sourced in the first place based on the Hong Kong Inland Revenue Department's prevailing assessing practice). In reality, the underlying research and development is often outsourced to related parties outside Hong Kong, where the resultant nexus ratio could be very low, and thus only a small portion of the patent-related income is offshore-sourced. For corporate taxpayers receiving other types of IP income (non-patent-related, such as franchise fees), the royalty would be deemed as taxable unless other exemption conditions are met. It could result in a significant tax cost if the Hong Kong developer's royalty income is taxable but without appropriate deductions on the costs incurred.

Light at the end of the tunnel

It is encouraging to see in the recent 2023-24 Budget Speech that the Hong Kong government is attempting to address the difficulties mentioned.

In the most recent China Mobile case, the Court of Appeal ruled that the spectrum utilization fees (such as the so-called "5G licence fees") paid by the taxpayer to the Telecommunications Authority are capital in nature. The logic behind this is similar to what is discussed previously in connection with upfront licence fees. The government has listened to the voices of the telecommunications industry and professional bodies to enact specific legislations to circumvent the traditional case law principles, such as the badges of trade, where this kind of technology advancement had not been foreseen. The government is proposing to allow tax deduction for spectrum utilization fees paid by future successful bidders of radio spectrum.

On the other hand, legislative amendments in the first half of 2024 devising a patent box preferential regime is expected. A patent box regime typically aims to provide lower tax rates on the income derived from specified IP (usually patents). The industry hopes that the regime could be wide enough to cover income generated from IP other than patents. The patent box regime could be designed to include specific deductions on expenditure which is capital in nature, such as the above-mentioned development costs, acquisition costs and/or license fees. The government could also consider expanding the scope of deduction for spectrum utilization fees to cover this kind of IP costs (or the so-called "black hole expenditure"). The government could also take the chance to revisit and expand the current scope of research and development enhanced deduction to cover the service fees paid for research and development activities performed in the Greater Bay Area.

However, when global minimum tax rules are implemented, the patent box concession may be neutralized if the relevant Hong Kong company is part of a corporate group that is subjecting to the Pillar 2 initiatives under Base Erosion and Profit Shifting 2.0 (i.e. those groups with global consolidated revenue of €750 million and above). A large part of the tax savings may be paid as "top-up tax" which will be introduced in Hong Kong not earlier than 2025.

In combination of a concessionary tax rate, and enhanced deduction of research and development costs, the relevant business' "tax breakeven point" could be postponed. This would be particularly helpful to start-ups in the I&T sector to maintain a strong cash position which is critical for business growth.

In line with Hong Kong's other tax concession regimes and to uphold tax integrity and transparency, it would be reasonable to expect that a certain level of business substance is required to be maintained in Hong Kong in order to be eligible for the patent box regime. These not only justify the commercial reasons for using Hong Kong as an IP ownership location but also bring in real economic activities, further energizing the Hong Kong economy. Other tax and non-tax measures for attracting and enabling I&T talent mobility should also be introduced to fuel the business substance requirement under the patent box regime, such as providing subsidy or education assistance to qualified expatriates with targeted skillsets, etc.

By providing a fair and favourable tax regime for the IP-related industries, the I&T sector could grow in Hong Kong and bring Hong Kong's economy to the next level.

The article is contributed by ***Eugene Yeung****, KPMG China's Tax Partner and Co-head of Technology and New Economy in Hong Kong, and Deputy Chairman of the Institute's Taxation Faculty Executive Committee.*

ISSB exposure drafts and Link Asset Management Limited: case study for streamlining ESG KPIs

Calvin Lee Kwan, Director of Sustainability and Risk Governance at Link Asset Management Limited, shares the entity's experience in adopting proposed standards under the ISSB's exposure drafts

The vast array of potential environmental, social and governance (ESG) indicators for disclosure encompasses several hundred across various standards and guidelines. Streamlining and prioritizing these indicators is essential for effective oversight and management, especially as Hong Kong regulators have designated ESG oversight as a board responsibility. This case study investigates the process by which Link Asset Management Limited (Link), by referencing the exposure drafts of the proposed IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2) published by the International Sustainability Standards Board (ISSB), streamlined over 600 ESG indicators down to 33 for management oversight and ultimately 11 for ongoing board oversight. This framework should be more readable and understandable for reporting corporates and experienced accountants and auditors to review.

Scope and purpose of the ISSB's proposed disclosures

The ISSB expects to release the final IFRS S1 and IFRS S2 towards the end of June this year. These standards will take effect from January 2024. Given the pace at which sustainability reporting is evolving in major economies around the world, Hong Kong-listed companies must prepare for disclosing material information about significant sustainability-related risks and opportunities.

Although the proposed ISSB standards are new, they align with common disclosures employed by other standard-setting bodies, catering to general-purpose financial reporting users. The objective is to identify sustainability-related risks and opportunities and provide relevant disclosures. Such bodies include the European Financial Reporting Advisory Group, Global Reporting Initiative, Sustainability Accounting Standards Board, and the Greenhouse Gas Protocol.

Both the IFRS S1 and S2 exposure drafts adopt a four-pillar core content framework, mirroring the Task Force on Climate-related Financial Disclosures (TCFD) recommendations to which many entities have aligned their reporting. The TCFD disclosure framework emphasizes significant climate-related risks and opportunities, encompassing physical risks from climate change and transition risks to a lower-carbon economy. Scenario planning is crucial for identifying and quantifying these risks.

For Hong Kong-listed companies, the anticipated ISSB standards are particularly pertinent due to the region's focus on ESG reporting. The Hong Kong Stock Exchange (HKEX) has implemented mandatory ESG disclosure requirements, progressively reinforced over the years. HKEX's Appendix 27 mandates that the board is responsible for effective governance and oversight of ESG strategy and reporting, while the Securities and Futures Commission has emphasized the integration of climate-related risks into investment strategies and risk management processes for fund managers operating in Hong Kong. In Link's view, adopting ISSB standards by regulatory bodies would enable alignment with international best practices and attract a broader investor base.

Steps taken by Link to adopt the proposals

Step 1: Identifying material issues
Materiality is paramount in the reporting process, as it is determined based on the information required by users of financial reporting and metrics, such as investors, financiers, and creditors. Material information includes risks and opportunities arising from an entity's dependency and impact on resources and business relationships. For example, an entity with water-dependent operations may consider water security or downstream user impacts as key material issues. These risks could expose the entity to increased governmental regulation of water access or negative reputational effects, potentially impacting the organization's enterprise value.

Link's materiality assessment focuses on identifying critical ESG issues for its business case and operations, including energy efficiency, emissions, water management, tenant well-being, and governance practices. More innovatively, Link's approach also takes into account material issues that business partners have identified and prioritized as affecting their own operations. Doing so enables alignment and streamlining of mitigation efforts across the Link ecosystem, an approach which Link articulates as "Business as Mutual."

Link employs the following criteria to determine key ESG issues for reporting:

1. List and prioritize potential ESG issues relevant to the industry and operations;
2. Engage with business partners to gather perspectives and validate issue priority assessments; and
3. Regularly review and update the materiality assessment to reflect changes in the business landscape.

The process identified 33 ESG key performance indicators (KPIs) for ongoing monitoring by Link's Sustainability Committee and management team. This approach enables allocation of the appropriate resources and personnel to address risk exposure while developing targeted strategies that enhance performance and capabilities. It is also supported by a deliberate strategy to engage and communicate more with stakeholders to ensure alignment and common direction.

Step 2: Secondary criteria for further refinement

Complementing the focus on materiality is the exposure drafts' enterprise value concept, which encourages companies to establish risk appetite thresholds when managing both financial and non-financial risks. This approach is particularly useful to streamline and prioritize management of non-financial indicators, such as climate risk, employee well-being, and governance, ensuring existence and alignment of critical ESG strategies with long-term business objectives and stakeholder expectations. This concept is essential for boards to diligently fulfill their ESG responsibilities spanning medium and long-term horizons.

Refining the reporting strategy includes:

Integrating financial and non-financial factors:

Identifying the connections between ESG issues and Link's financial performance, such as how energy efficiency measures can reduce operating costs or how robust governance practices can minimize legal and reputational risks. Recognizing these connections helps prioritize material issues that directly contribute to the company's enterprise value.

Evaluating long-term impacts and opportunities:

As a real estate investment trust, we focus on assessing the long-term implications of material ESG issues on our asset portfolio, growth potential, and competitive advantage. In the real estate sector, two key issues arise with the potential to impact property valuation: a) Climate resilience, particularly adaptive building designs to mitigate risks from extreme weather events, such as typhoons and flooding, protecting long-term property values and ensuring operational continuity, and b) Evolving tenant preferences, especially the demand for sustainable and healthy spaces by incorporating energy-efficient systems, green building certifications, and wellness amenities, catering to environmentally conscious tenants, and enhancing the property's long-term marketability and value.

Aligning material issues with strategic goals:

Ensuring that the prioritized material issues align with the company's overall strategic goals and contribute to value creation. This alignment can help optimize resource allocation and enhance the company's long-term financial and ESG performance.

In addition to enterprise value, two supplementary secondary criteria – the ability of the indicator to monitor greenwashing and changes to Link's social license to operate – were added. Incorporating these criteria is crucial for long-term risk management, as it ensures genuine sustainability efforts and fosters stakeholder trust, preventing potential repercussions such as reputational damage, fines, and regulatory backlash. Following this, ultimately 11 ESG indicators were consolidated and recommended to the board for ongoing monitoring and management and which will undergo annual assurance.

Step 3: Communicating the business case to stakeholders

Identifying and monitoring ESG KPIs is not enough. Transparently disclosing the company's approach to material issues and their contribution to enterprise value, supported by performance metrics, is crucial to the reporting process. Demonstrating the integration of ESG factors into decision-making and strategic planning can build trust and credibility among stakeholders, such as investors, tenants, and employees, and enhance the company's reputation and license to operate. Moving forward, Link's 11 core ESG indicators will be disclosed in the Strategic Report of its annual integrated report while the broader 33 ESG indicators covering Link's wider range of material issues are reported through the Sustainability Compendium.

In conclusion, utilizing the ISSB exposure drafts' enterprise value concept enables organizations like Link to prioritize material issues by recognizing the interplay between financial and non-financial factors, assessing long-term impacts and opportunities, aligning with strategic objectives, and effectively communicating value creation to stakeholders. This approach offers industry colleagues a clear direction on significant ESG issues and steps to enhance long-term performance, ultimately creating value for stakeholders.

Early adoption of the ISSB exposure drafts has proven beneficial in prioritizing critical ESG issues and can provide a refined, comprehensible framework for experienced accountants and auditors. Although the content may change in the final standards, our experience with the drafts facilitates smoother future adjustments, showcasing our ESG commitment and fostering long-term value and a competitive advantage.

*This article was contributed by **Calvin Lee Kwan**, Director of Sustainability and Risk Governance at Link Asset Management Limited, and member of the Institute's Sustainability Committee.*

TECHNICAL NEWS

The latest standards and technical development highlights

Financial reporting

Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong
The Hong Kong government gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 in June 2022. The Amendment Ordinance abolishes the use of the accrued benefits derived from employers' mandatory contributions to a Mandatory Provident Fund (MPF) to offset severance payment and long service payment (LSP)(the abolition).

The Institute has issued an alert regarding the accounting implications of the abolition. The alert summarizes the discussions by the Institute's Financial Reporting Standards Committee (FRSC) to date and the steps entities should take before the FRSC publishes more comprehensive guidance.

Publication: *Financial Reporting Considerations for Closing Out 2022*
The Institute has issued the publication *Financial Reporting Considerations for Closing Out 2022*, which highlights the key topics and reminders that entities should consider in preparing their December 2022 financial statements. The publication discusses new and revised Hong Kong Financial Reporting Standards mandatorily effective from 1 January 2022, agenda decisions issued by the IFRS Interpretations Committee in 2022 that are relevant to Hong Kong entities and the impact on financial reporting brought by the changes in the macroeconomic environment. The considerations highlighted in the publication are also relevant for upcoming interim period-ends and financial year-ends.

IASB initiates project to consider climate-related risks in financial statements
The International Accounting Standsards Board (IASB) has added a project to its work plan to explore whether and how companies can provide better information about climate-related risks in their financial statements. In this article, Andreas Barckow, IASB Chair, provides further information about the project and explains how it relates to the work of the the International Sustainability Standards Board (ISSB).

Auditing and assurance

Institute submission
The Institute has submitted its comment letter on the International Auditing and Assurance Standards Board (IAASB) consultation paper, *The IAASB's Proposed Strategy and Work Plan for 2024-2027*.

Updates to Auditing and Assurance Technical Bulletins and Circulars
The Institute has revised the relevant Auditing and Assurance Technical Bulletins and Circulars for local legislative changes due to regulatory reform.

Auditor's reporting under Product Eco-responsibility (Regulated Articles) Regulation (Cap. 603C)
The Product Eco-responsibility (Regulated Articles) Regulation (Cap. 603C) will be implemented starting from 1 May 2023. It requires registered suppliers of glass beverage bottles to submit periodic returns to the Hong Kong Environmental Protection Department (EPD) on the bottles they distribute or consume in Hong Kong. It also requires them to engage a CPA (practising) to opine on the periodic returns submitted to the EPD. The Institute's Circular on Reporting under Section 20 of the Product Eco-responsibility (Regulated Articles) Regulation (Cap. 603C) aims to provide guidance to practitioners when undertaking such engagements.

HKICPA alerts on auditor-related matters
The Institute has published the following alerts which highlight requirements relevant to auditors:

- Alert 45: Monitoring Activities and SOQM Evaluation under HKSQM 1
- Alert 46: Reminders for auditor's reporting on the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules

Implementation of the new quality management standards
A publication by the European Federation of Accountants and Auditors for small and medium-sized enterprises shares the approach of a small- and medium-sized practice (SMP) to implementing the new quality management standards, as well as a list of some available electronic implementation tools that might help SMPs.

AFRC audit fee report and 2023 survey report
The two new reports on audit fees (audit fee report) and the appointment of auditors in Hong Kong (survey report) by the Accounting and Financial Reporting Council (AFRC) calls for auditors, audit committees, listed companies and institutional investors to develop a stronger focus on the setting of audit fees and the appointment of auditors, both of which are crucial in upholding the quality of financial reporting and audit in listed companies.

Ethics

IESBA Q&A on revisions to the definitions of listed entity and PIE in the code
The staff of the International Ethics Standards Board for Accountants (IESBA) released a questions and answers (Q&As) publication on the revisions to the definitions of listed entity and public interest entity (PIE) in the *International Code of Ethics for Professional Accountants (including International Independence Standards)*. The Q&As highlight, illustrate or explain aspects of the PIE revisions in the code and is intended to complement the Basis for Conclusions for the final pronouncement. It also assists stakeholders including firms to adopt and/or implement the PIE revisions, and understand the revised PIE definition and related provisions in the IESBA code.

Sustainability

ISSB ramps up activities to support global implementation ahead of issuing inaugural standards end Q2 2023

The ISSB, at its meeting on 16 February in Montreal, has taken its final decisions on all the technical content of its initial IFRS Sustainability Disclosure Standards, informed by feedback it received during extensive consultation last year. The ISSB unanimously approved entering the thorough drafting and formal balloting process of the standards, ahead of their expected issuance at the end of Q2 2023. The ISSB also agreed that its initial standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, will become effective starting January 2024. Given sustainability disclosure is new for many companies globally, the ISSB will introduce programmes that support those applying its standards as market infrastructure and capacity is built.

ISSB decides to prioritize climate-related disclosures to support initial application

At its meeting on 4 April, the ISSB decided that it will complement its package of transitional reliefs to support companies applying the ISSB's first two standards.

The relief will enable companies to focus initial efforts on ensuring they meet investor information needs around climate change. It means companies can prioritize putting in place reporting practices and structures to provide high-quality, decision-useful information about climate-related risks and opportunities in the first year of reporting using the ISSB standards.

IESBA and IAASB highlight commitment to deliver on recommendations in new IOSCO report

The IESBA and IAASB welcomed the report released by the International Organization of Securities Commissions (IOSCO) on developing a global assurance framework for sustainability-related corporate reporting. The IESBA and IAASB commented that the IOSCO report reflects extensive research and feedback from key stakeholders and stated that the report calls for timely development of ethics and assurance standards for sustainability reporting by the IESBA and the IAASB, respectively.

Both the IESBA and IAASB will issue public consultations later this year on standards for sustainability ethics and assurance, respectively. Both boards emphasize their commitment to address key considerations and recommendations presented in the IOSCO report.

Connectivity – what is it and what does it deliver?

The benefits of connectivity were an important consideration when the IFRS Foundation created the ISSB to operate alongside the IASB. In this article, Andreas Barckow, IASB Chair, and Emmanuel Faber, ISSB Chair, explain what connectivity means, why it matters and what benefits it can deliver.

Corporate finance

Institute submission on HKEX's consultation on Proposals to Expand the Paperless Listing Regime and Other Rule Amendments

The Institute issued a submission in response to the consultation paper issued by the Hong Kong Stock Exchange (HKEX), seeking feedback on proposals to further advance its paperless initiatives.

Institute submission on SFC's consultation on the Proposed Requirements for Operators of VATPs

The Institute issued a submission in response to the consultation paper issued by the Securities and Futures Commission, seeking feedback on proposals to allow licensed virtual asset trading platform (VATP) operators to serve retail investors.

In principle, the Institute does not object to allowing licensed VATP operators to extend their services to retail investors, provided that there are sufficient robust investor protection measures in place and, in this regard, the submission suggests some additional safeguards. The submission also responds to other questions raised in the consultation paper.

Insolvency

Revision of Panel A Rules

In consultation with the Institute's Restructuring and Insolvency Faculty Executive Committee, the Official Receiver's Office has reviewed and revised the Rules for Admission of Firms and Persons for Taking-up Appointment of Liquidators, Provisional Liquidators or Special Managers in Non-Summary Court Winding-up Cases, commonly referred to as the "Panel A" Rules in consultation with the Institute. The revised Panel A Rules took effect on 1 March 2023.

Taxation

Profits Tax e-Filing

All corporations and businesses can voluntarily e-file tax returns under eTAX for year of assessment 2022/23. Particular attention should be paid to the following updated filing requirements:

- All corporations and businesses, regardless of the amount of their gross income and the mode of return filing, must submit profits tax return together with all supporting documents.
- At the same time, all relevant supplementary forms and other forms required must be e-filed under eTAX.
- If a taxpayer chooses not to e-file the return, the taxpayer has to print and sign a paper Control List for the required forms e-filed and then furnish the signed Control List together with tax return and supporting documents in paper form.

Learn more by reading the letter to Taxation Faulty members.

Legislation and other initiatives

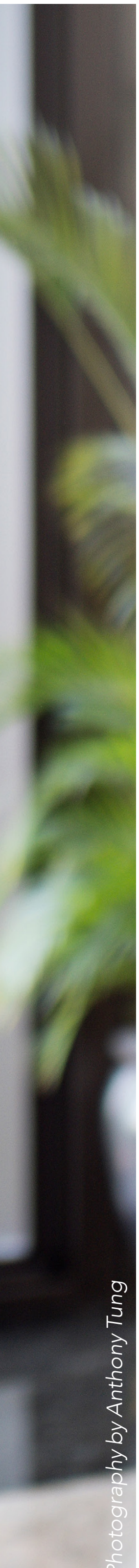
Government welcomes FATF's adoption of Hong Kong's AML/CTF follow-up report

On 17 February, the Financial Action Task Force (FATF) published a follow-up report on Hong Kong's anti-money laundering and counter-terrorist financing (AML/CTF) system, following a review undertaken by its reviewer and member jurisdictions, which the Hong Kong government has welcomed. The report affirms Hong Kong's progress and efforts in implementing risk-based AML/CTF supervision for most designated non-financial business and profession sectors, including the accounting profession. This reflects the Institute's efforts to contribute input and updates on the part of the accounting profession for this follow-up report.

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

AMANDA YUEN

Senior Manager at
Mazars in Hong Kong



Photography by Anthony Tung

Amanda Yuen, Senior Manager at Mazars in Hong Kong and an Institute member, specializes in audit assurance yet a lot of her time is spent being a people person. She tells *A Plus* how she handles the pressures of being a manager today, while meeting the high expectations of clients

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

As an audit senior manager at Mazars in Hong Kong, I manage a portfolio of clients and provide them with audit assurance services. I am also a group head of one of the audit teams at the firm, managing and coordinating a group of colleagues at various job levels. This means having to communicate well with partners and managers on our team's client portfolio, plan manpower resources for upcoming engagements and respond to unexpected situations in a timely manner in order for our team to meet our goals. I also act as an intermediate between management and my colleagues within the team. I listen to the needs and comments of colleagues and convey constructive messages to our management or talent department, with the hope of reaching a mutual understanding and solutions so that we can achieve a better working environment for all at Mazars. Apart from the daily audit work, a considerable amount of my time is spent on communicating internally with people and departments to ensure every party's needs and expectations are taken care of. Despite the extra time this takes, I am glad that I get to be the bridge connecting our staff and the management.

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

It is challenging managing a group of people with different perspectives, while creating value with their work and driving growth for the firm. Striking a balance between the expectations of staff and the needs of management is no easy task, and yet the decisions or suggestions made to the firm always have to take into consideration both sides. I am grateful that people around me have shown their trust in me. While staff would share their views and needs with me regarding operations, our management is also willing to give me honest feedback and share their experience with me, express their concerns and provide alternatives to my suggestions. It is satisfying seeing improvements within the firm based on my suggestions. It is also rewarding to hear that, even when our staff leave the firm, they have had a happy work life here or feel sad that they have to leave. All of this encourages me to continue and progress in my current role.

What inspired you to become an accountant?

I went to a traditional secondary school which separated students by art stream and science stream. As a science student back then, I never imagined that I would cross paths with accounting, until my school unexpectedly made accounting available for both art and science stream students two years before I graduated. I have been very interested in numbers and mathematics since I was young, so I decided to enrol in the accounting subject which led me to study accounting at Lingnan University. I received an offer from Mazars before I graduated, and my mentor at the time, who was a partner at a local firm, helped me as I was making my decision and encouraged me to give it a try.

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

People management is complex at times as every person is different. Continuous improvement in this area is required in a fast-changing world. What we have experienced in the past may not always be the correct way. So it is important that we step out of our comfort zone and to think outside of the box, and to take in feedback and even criticism from the ground-level staff and younger generations. It is also important to spend time training our staff, to ensure their continued progress, and to create a better working team. As we have less young people, particularly Generation Z, joining audit these days, managing the workload with limited resources, especially during the peak season, is a challenging task. This makes it even more important and valuable for us to create a positive working environment for our colleagues. It's critical that we spend time working on this.

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

As an auditor, the financial reporting and business assurance modules were relevant to me, and the QP equipped me with basic accounting knowledge for my everyday work, particularly when I started as a junior auditor right after graduation. During my time as an auditor, I found that our clients always have high expectations from us and expect us to not only be reliable through our audit knowledge, but also through knowledge on other financial-related aspects. While an auditor is not exactly a financial expert and might not have in-depth knowledge on some specific financial areas, the QP's corporate financing and taxation modules gave us the basic knowledge to deal with these issues or queries, enabling us to provide clients our views before approaching a specialist. Each QP module provided us with the fundamental understanding and knowledge of different areas, allowing us to be all-rounded accountants.

Understanding SPACs for accountants

An e-Series course looks at the evolution of special purpose acquisition companies (SPACs), as well as their advantages, disadvantages and what makes them a disruptive force in the initial public offering market

Chester Chu is the Founder and Chief Executive Officer of Fruit Tree Group, whose business subsidiaries cover securities and stock brokerage in Hong Kong, as well as financial advisory services in Henqin, Zhuhai and Macau. He is also the Chairman of The Hong Kong Association of Financial Advisors Ltd. and The Institute of Certified Finance and Responsible Officers Ltd. With more than 27 years of financial industry experience, he has participated in several fund-raising exercises for many Hong Kong-listed companies.

Special purpose acquisition companies (SPACs) first appeared as "blank-check corporations" in the 1980s, according to a *Harvard Business Review* article, but did not grow in prominence until recently as they were not well regulated by the authorities. Due to the uncertain economic environment and the frequent fluctuating valuation of companies, a new regulatory framework was introduced and blank-check companies were rebranded as SPACs, publicly traded corporations formed with the sole purpose of effecting a merger with a privately held business to enable it to go public. Since then, the overall quality and investment performance of the investment vehicle has continuously improved and become more mature.

SPAC activity has experienced rapid growth in recent years, and has been centred mostly around the United States. In 2019, there were 59 SPAC initial public offerings (IPOs) in the U.S., raising over US$12 billion. In 2021, there were 613 SPACs listed, raising US$162 billion, which represented 49 percent of U.S. IPO proceeds.

Certain advantages of a SPAC make it an attractive alternative to a traditional IPO for target companies, such as faster capital-raising, fewer requirements, higher valuations, lower fees, and more certainty and transparency. It is basically a new channel to access the capital markets. Most SPACs focus on companies that are disrupting consumer, technology, and biotech markets, as well as mature unicorns.

Nonetheless, not all SPACs will find target companies for a merger, and will consequently fail. Through a SPAC, sponsors raise a pool of cash in an IPO and place that cash in a trust to be used solely to acquire a target company. If the SPAC fails to complete that initial business combination – or "de-SPAC" transaction – within two years, it must be liquidated and the proceeds raised in the IPO must be returned to the public shareholders.

To enhance the competitiveness of Hong Kong, as an international financial centre, the Hong Kong Stock Exchange (HKEX) listed the first SPAC on its Main Board on 18 March 2022 following its introduction of a listing framework for SPACs in January 2022. Since then, various SPAC applications have been submitted for approval.

In the U.S., SPACs are facing many challenges, according to Kroll's *Market Report* for 2022. For instance, the market has coincided with an increased regulatory scrutiny environment, a declining stock market and rising interest rates. There were over 386 SPACs active and seeking targets as of 31 December 2022. During 2022, there were 86 IPOs, totalling over US$13 billion in gross public proceeds. There were also 102 completed de-SPAC transactions that year, with a total enterprise value of over US$183 billion.

About the e-Series

The "Understanding Special Purpose Acquisition Company for Accountants" e-Series covers essential information about SPACs that accountants need to know and understand, including what a SPAC is, reasons for its popularity, its structure and the work, process and timelines involved, as well as success elements and risk factors. The HKEX listing framework will also be covered, as well as accounting considerations and a comparison between listing via a SPAC and direct listing and a traditional IPO.

In the course, I will also share my personal experience and perspective as an investor of a SPAC, and provide further insights to participants about the financial and strategic benefits of a successful merger, and how the SPAC model can create value for different stakeholders: sponsors, investors and target companies.

Everybody in business wants to celebrate success. With a member of the Hong Kong Institute of CPAs on your team, you'll be one step closer to popping the champagne cork.

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