A+
DRIVING BUSINESS SUCCESS
Issue 4 Volume 19 October 2023

PLUS:

B CORPS
Hong Kong B Corporations share key learnings from the certification process

DIGITAL SKILLS
A roundtable of experts discuss new technologies and the skills CPAs need in the digital era

SECOND OPINIONS
How can CFOs play a central role in accelerating digital transformation?

50th anniversary special:
OVERSEEING SUCCESS

Tim Lui, Chairman of the Securities and Futures Commission, on how the regulator takes on market development, and accountants' role in driving sustainability

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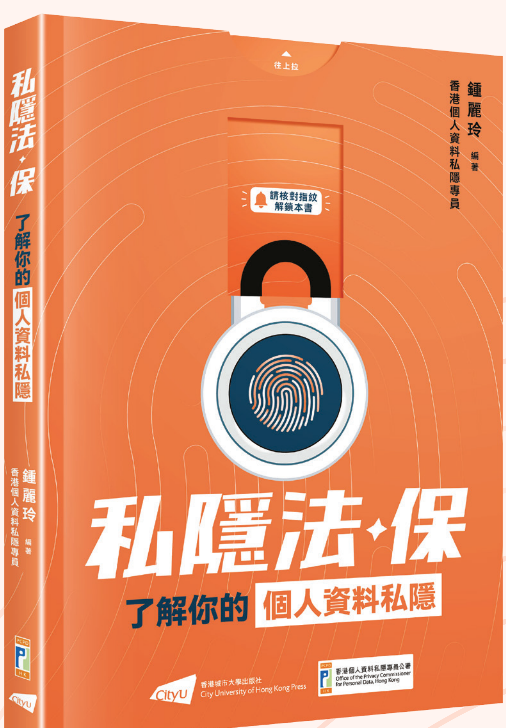
The Treasure-trove of Privacy —
Understanding Your Personal Data Privacy

鍾麗玲
Ms Ada CHUNG Lai-ling
香港個人資料私隱專員 編著
Privacy Commissioner for Personal Data, Hong Kong

本書以《個人資料(私隱)條例》(《私隱條例》)為基礎，深入淺出地介紹《私隱條例》下保障個人資料私隱的原則，從生活的層面分析個人資料私隱的風險和陷阱，並以真實個案解釋《私隱條例》的應用，讓讀者了解如何保護自己的個人資料。

The new book contains a comprehensive account of the data protection principles under the Personal Data (Privacy) Ordinance (PDPO) using plain and simple language that is easy for readers to understand. It illustrates the application of the PDPO using real-life scenarios and decided court cases to help readers understand how to safeguard their personal data privacy.



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重點 Highlights：

- **保障個人資料原則**
  Data Protection Principles
- **打擊「起底」**
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"We hope that by recognizing the broad shoulders we stand on, we will see the platform we share, of which we, and future generations of the profession, can build our own legacy upon."

Dear members,

As we approach the end of the year, I am excited to share several updates and important events with you in the last quarterly issue of *A Plus* of 2023, and also my final message in the magazine before the next Council election in December.

First and foremost, I am thrilled to see the Institute's 50th anniversary celebrations continue with the special CityBus and MTR branding campaign bringing more awareness of the Institute and its members' achievements to the public. Public buses and a section of the Admiralty MTR station adorned with our 50th anniversary branding and messages were launched in October and will run until mid-November. These advertisements serve as a tribute to the Institute and its members' crucial roles in making Hong Kong a bona fide international financial centre over the past 50 years, and it is important that we are able to share those messages to ensure members receive the recognition that aligns with the tremendous roles they play in society.

Of course, our celebrations will come to a conclusion with the Gala Dinner to be held in December. This will be a special occasion where we intend to give recognition to the history of the Institute, and the development of our beloved profession throughout the past five decades. We hope that by recognizing the broad shoulders we stand on, we will see the platform we share, of which we, and future generations of the profession, can build our own legacy upon. I hope to see you there at the event.

Traditionally, the Institute has focused on offering a public response to the each year's Budget by the government. This year, we also made the effort to share our thoughts on the Chief Executive's 2023 Policy Address. We welcomed the government's commitment to reinforcing Hong Kong's international financial centre status, particularly initiatives outlined in the policy address to promote green finance, improve stock market liquidity, the development of Hong Kong as a regional intellectual property trading centre, and talent integration across the Greater Bay Area. As we celebrate our 50th anniversary, the Institute remains committed to collaborating with stakeholders to strengthen the professional services in the accounting sector, ultimately enhancing Hong Kong's status as an international financial centre and an attractive location for investment, and contributing to our nation's success.

Indeed, our profession has an important role to play in converging the paths to success for both our city and the nation as a whole. In September, we were proud to hold a remarkable celebration dinner to commemorate the 74th National Day of the People's Republic of China. The event brought together the Institute, the Association of Hong Kong Accounting Advisors, Hong Kong Association of Registered Public Interest Entity Auditors Limited, Hong Kong Business Accountants Association, and The Society of Chinese Accountants and Auditors at the JW Marriott Hotel Hong Kong. With approximately 470 participants in attendance, the evening was a true testament to unity and solidarity within the accounting profession.

I also had the immense honour of representing the Institute, alongside other Hong Kong delegates, at the Third Belt and Road Forum for International Cooperation held in Beijing in October. The forum provided valuable opportunities for representatives from participating countries and jurisdictions to collaborate and explore ways to achieve win-win situations. International cooperation is vital in maximizing the impact of sustainable development worldwide.

In his inspiring speech, President Xi Jinping presented the eight major steps to support high-quality belt and road cooperation, one of which was to promote green development. As a mature centre for raising capital, Hong Kong has an excellent advantage in facilitating low carbon or zero carbon transition across the belt and road. The accounting profession in Hong Kong will have a critical role when this comes into play, and it will be an exciting opportunity for us to contribute to Mainland China's "Belt and Road Initiative."

As President of the Hong Kong Institute of CPAs, it has been truly an honour to represent our esteemed Institute and I feel privileged to have had the chance to share the Institute's developments through *A Plus*. By the next issue, a new president will be sharing his or her message with you, and I will continue to enjoy the content as a proud member – just like you. Together, we will continue to drive the profession forward, making significant contributions to Hong Kong's economic growth and the development of the accounting industry.

Thank you for your unwavering support, and I look forward to celebrating our remarkable 50-year legacy with you at the Gala Dinner.

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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A continuous celebration: The Institute's 50th anniversary

The Institute's suite of celebratory events and activities marking its 50th anniversary is in full swing. It held the 50th Anniversary Cup horseracing event in June and the well-received CPA Congress in July. The festivities will finally culminate in the 50th Anniversary Gala Dinner, which will be held on 4 December at the Hong Kong Convention and Exhibition Centre. Members are invited to join in an unforgettable evening of celebration and recognition. Book your seat or become a sponsor now to share this joyous moment with us.

As part of the 50th anniversary celebrations, the Institute has also launched its special CityBus and MTR branding campaign (pictured right), establishing a positive and esteemed image of Institute members and the profession in the public domain. Celebrate the profession by posting a selfie or story on social media with the hashtag #50YearsOnTheMove when you come across the ads.

A video commemorating the Institute's golden jubilee has also been produced, highlighting key milestones in the Institute's development over the past 50 years.

A4S ABN members collaborate for thought piece

Member bodies of the Accounting for Sustainability (A4S) Accounting Bodies Network (ABN), including the Institute, collaborated in celebration of the network's 15-year anniversary to share views on how the profession may transform in the future in a thought piece, titled "Transforming the profession – the future of accountancy."

The collection of insights focuses on how systems, technology and skills will change the profession in the near future, and what accounting bodies need to do to support their members in adapting to this. It features videos from the leaders of the global accounting profession, including Institute Chief Executive and Registrar Margaret Chan, who presents her thoughts on leveraging technology for a sustainable future. Read the full content here.

Renewing membership for 2024

The 2024 renewal notice was issued to all members on 3 October. To complete the renewal process, members should follow the steps below on or before 15 December: (i) submit the annual return for membership renewal, which includes your continuing professional development declaration and fit and proper declaration; and (ii) pay the annual fee online. Visit here to renew or check your renewal status.

Call for Council and committee applications

The Institute's Nomination Committee is inviting applications for 2024. Members interested in contributing to the development of the profession in a meaningful way next year can put their names forward to join the Council as a co-opted member or committee members. Members can learn more about the committees from the Institute's website and should submit the nomination form before 24 November.

Views needed on proposed QP interim qualifications

As one of the initiatives under the Strategic Plan 2023, the Institute is exploring the potential of offering Interim Qualifications (IQ) as another interim recognition point within the Qualification Programme (QP). Members are invited to complete a survey by 7 November, which will help us in assessing the feasibility and gauge the market demand for the proposed IQ. More details here.

Council meeting minutes

The abridged minutes from the July and September 2023 Council meetings are now available.

Disciplinary findings

Chan Yui Hang, CPA (practising)

Complaint: Failure or neglect by Chan to observe, maintain or otherwise apply the fundamental principle of Professional Behaviour in section 500.5(e) of the Code of Ethics for Professional Accountants (code of ethics), and breach of the duties of reporting openly to those interested in the liquidation and retaining overall control of the engagement under sections 500.40 and 500.43 respectively of the code of ethics. In addition, the Disciplinary Committee found Chan was guilty of professional misconduct.

Chan appealed against the committee's decision. His appeal was dismissed by the Court of Final Appeal on 7 September 2023.

Chan was the sole liquidator of a Hong Kong private company which went into voluntary liquidation in December 2012. In conducting the liquidation, Chan breached the requirements of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Companies (Winding-up) Rules by failing to convene valid annual creditors' meetings for four consecutive years and to file his liquidator's statements of account for six periods with the Companies Registry within the prescribed time. Chan also failed to retain overall control of the liquidation when he delegated some of the liquidation work to a third party. In addition, Chan made payments of liquidators' fees of some HK$4.7 million to himself out of the company's funds without obtaining proper approval from the creditors of the company.

Decisions and reasons: Chan was reprimanded, and his practising certificate was ordered to be cancelled on 15 October 2020 with no issuance of practising certificate to him for 12 months. In addition, Chan was ordered to pay a penalty of HK$100,000 and costs of the Institute of HK$215,187. In making its decision, the Disciplinary Committee noted that Chan had shown blatant disregard for the legal requirements while he was the liquidator of the company and he was actually prosecuted by the Companies Registry. In the circumstances, he had no doubt damaged the reputation of the accountancy profession. The 12-month cancellation period was initially ordered to run consecutively following another disciplinary order made against him in a separate complaint. He appealed against the disciplinary order which has been remitted back to be heard by a different disciplinary committee. With this separate complaint under deliberation by the new disciplinary committee and the final disposal of Chan's appeal by the Court of Final Appeal, the cancellation of practising certificate and the 12-month non-issuance period was commenced on 19 October 2023.

Ng Kay Lam CPA (practising)

Complaint: Failure or neglect, without reasonable excuse, to comply with a direction issued by the Practice Review Committee (PRC) under section 32F(2)(b) of the pre-amended Professional Accountants Ordinance.

The Institute scheduled a follow-up practice review of Ng's practice, K.L. Ng & Company, in 2017. This did not take place due to Ng's refusal to cooperate. As a result, the PRC issued a direction requiring Ng to accommodate the practice review visit in 2018 and provide certain information for the review. Ng failed to comply with the PRC's direction.

Decisions and reasons: The Disciplinary Committee ordered the practising certificate issued to Ng be cancelled with effect from 22 July 2021 and no practising certificate shall be issued to him for 24 months. In addition, Ng was ordered to pay costs of the disciplinary proceedings of HK$174,866. When making its decision, the committee noted that Ng had not shown any remorse, and that he put forward numerous irrelevant and unnecessary arguments in an attempt to prolong the proceedings. The committee took the view that any such attempt should be deterred.

Ng appealed the committee's decision. Following the Court of Appeal's dismissal of the appeal in May 2023 and it's decision on costs against Ng in September 2023, the practising certificate of Ng was cancelled with effect from 25 October 2023.

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


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81%

The percentage of chief financial officers who see hybrid work as a top way to meet savings targets amid ongoing economic uncertainties, according to IWG, a provider of flexible workspaces. The company surveyed more than 250 United States-based CFOs for its CFO & Hybrid Work Survey. Of the survey respondents, 79 percent say CFOs act as a decision maker when it comes to office space decisions.

>US$1 billion

Midea, Mainland China's largest home appliance maker, filed for a Hong Kong listing on 24 October in what could be one of the biggest initial public offerings (IPO) in recent years. The IPO could raise more than US$1 billion subject to changes in market conditions, reported the *South China Morning Post*, and the stock could start trading early next year.

7-12 kg

The amount of greenhouse gas emissions behind each new Apple Watch, which are offset with high-quality carbon credits from nature-based projects, according to the tech giant. In September, Apple introduced the new Apple Watches, presenting them as carbon-neutral products, which prompted scrutiny from European environmental and consumer groups. "Carbon neutral claims are scientifically inaccurate and mislead consumers," Monique Goyens, Director-General of BEUC, a European consumer organization, told the *Financial Times*.

The Hong Kong government may face a fiscal deficit of more than HK$100 billion, Financial Secretary Paul Chan said on *RTHK* on 27 October, citing a slower-than-expected recovery following the COVID-19 pandemic and reduced revenue from land sales and stamp duty. Chan previously forecast a deficit of HK$54.4 billion for the 2023-24 fiscal year during his February budget. "The economic cycle has its ups and downs, and it is crucial to continue developing the economy," Chan said.

89% in 2021

Sustainability reporting grew from 84 percent in 2019 to 89 percent in 2021, and assurance rates grew from 37 percent in 2019 to 48 percent in 2021, for jurisdictions in Latin America, Africa, the Middle East, and Southeast Asia, as well as smaller economies within the European Economic Area and Switzerland, according to the International Federation of Accountants' (IFAC) *The State of Play: Beyond the G20*. The report expands IFAC's sustainability disclosure and assurance data to additional jurisdictions beyond the G20 previously reported on.

€1.5 billion

The amount Stellantis, the world's fourth-largest car manufacturer, said it will invest for a 21 percent stake in Chinese electric vehicle (EV) start-up Leapmotor, in a bid to gain a foothold in Mainland China, the world's biggest car market by sales. As part of a joint venture, the European carmaker will have exclusive rights to build and sell Leapmotor products outside Greater China. The deal follows a tie-up between Volkswagen and Chinese EV maker Xpeng, announced in July.

"[The new AI system is already] behaving like a 25-year tenure partner."

– Bivek Sharma, Chief Operating Officer for Tax, Legal, and People at PwC U.K. PwC announced that it has teamed up with OpenAI, the creator of generative artificial intelligence (AI) technology ChatGPT, to provide its clients with AI-generated advice on tax, legal and human resources matters. The AI system, which is being rolled out in the United Kingdom, will be used for tasks such as conducting due diligence, identifying compliance issues, and recommending whether to approve business deals.

2 years

The starting validity period of new multiple-entry visas to Mainland China which foreign staff of overseas companies registered in Hong Kong may apply for. The policy, announced in Chief Executive John Lee's 2023 policy address on 27 October, was welcomed by foreign business chambers, believing it will streamline travel within the Greater Bay Area for foreign businesspeople based in the city.

US$250 billion

The amount that could be raised annually through a global minimum tax on billionaires, according to the EU Tax Observatory's *2024 Global Tax Evasion Report*. The sum would be equivalent to 2 percent of the nearly US$13 trillion in wealth owned by the 2,700 billionaires globally, said the research group.

50th Anniversary Interview Series:

CREATING THE NEXT GOLDEN ERA

With a career in the profession almost as long as the Institute's existence, Tim Lui, Chairman of the Securities and Futures Commission, has seen the roles of accountants change, and their responsibilities increase. He talks to Jemelyn Yadao about how Hong Kong can maintain its status as a global financial centre, the role CPAs should play in sustainable development, and his extraordinary time as Institute president

Photography by Jocelyn Tam

It's 1997, a historic year for both the city and the Hong Kong Society of Accountants, now the Hong Kong Institute of CPAs. With the imminent return to Chinese sovereignty, the Society sees local members taking up the positions of president and both vice-presidents.

"I got Aloysius Tse on one side and P.M. Kam on my other side. It was quite a moment," says Tim Lui, Chairman of the Securities and Futures Commission (SFC), who was a partner at Coopers & Lybrand (now PwC) when he was elected president of the Institute in a year like no other.

Lui remembers a great deal of his time as president being spent on boosting ties with accounting professionals on the Mainland. "Of course, interaction with the Chinese Institute of CPAs took on a new meaning. At that stage, their footprint was not very visible on the international stage. We worked together so that both of us could go out [to the world] together," says Lui. The Institute's post-1 July transition went smoothly, he recalls. "That was very satisfying. It also opened the door for a lot of interaction with our counterparts in the Mainland, and the relationship has blossomed since."

Keeping Hong Kong competitive

Born in 1989, the SFC is charged with oversight of the securities and futures markets of Hong Kong. It puts up a robust regulatory framework and achieves the highest level of compliance through supervision, market surveillance and enforcement actions, says Lui, who joined the regulator as Chairman in 2018 after retiring as senior advisor at PwC.

While regulatory work is a key function of the statutory body, Lui emphasizes that regulation is just one of the pillars to buttress Hong Kong's status as an international financial centre. "Regulation is one side of the equation; development of the market is the other. You need both and a very fine balance between them. I think we can actually achieve this," says Lui.

Over the years, the SFC has supported development and technological advancement. "Market development is

Tim Lui, Chairman of the Securities and Futures Commission, was elected president of the Hong Kong Society of Accountants, now the Hong Kong Institute of CPAs, in the year of the handover. He was also chairman of the Institute's former Taxation Committee for 12 years.

assuming more significance nowadays because of the competitive nature of markets across the world, and we adopt a rather multifaceted approach to this," says Lui.

For example, strengthening Hong Kong's role as the bridge between the Mainland China and global markets remains one of the regulator's priorities. The SFC has been working with Mainland authorities for years to expand the mutual market access programmes, particularly the Connect schemes.

Lui highlights that there are over 1,400 Mainland companies listed on the Stock Exchange of Hong Kong Limited (SEHK), accounting for more than half of all listed companies here. The figures reflect the important role of Mainland companies in Hong Kong's stock market. "Hong Kong has to maintain its status as a capital market of choice for Mainland companies. And for international investors, they would like to invest in China through a platform that they are familiar with, and Hong Kong has always instilled confidence among them. We are very mindful of this, so one of our main tasks is to engage in constant dialogue with our counterparts to see how we can mutually expand these Connect programmes. Not just stocks but also other products including those which are not currently available."

Enhancements to the Guangdong-Hong Kong-Macao Greater Bay Area Wealth Management Connect (WMC) Scheme and the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme are currently in the works. "We're pleased that all relevant parties have agreed on the enhancements to the WMC scheme, which include broadening the range of eligible investment products, expanding the scope of eligible investors and allowing more institutions such as securities firms to participate," says Lui. "The SFC also maintains discussions with the China Securities Regulatory Commission (CSRC) to expand mutual market access for public funds."

An agile regulatory approach

Lui believes that in a world that is constantly changing, agility and adaptability are important for keeping up with the pace of development. It is the rationale behind the SFC's approach to market development. "The agile regulatory environment enables us to promptly adapt and move with the times, to address challenges, and also tap the opportunities in fast-changing markets, especially after a long period of COVID and its repercussions, global inflation, monetary tightening, etc."

Giving an example of how the regulator adapts to emerging market trends, Lui brings up the SFC's licensing regime for centralized virtual asset trading platforms (VATPs). The regime, which came into effect on 1 June 2023, closes the gap in the SFC's licensing and supervision powers over VATPs. "We went through quite a unique journey in terms of how to cope with VATPs given numerous challenges. Years back, these platforms were not within the legal ambit of the SFC. But we see the need to regulate as virtual assets are growing in popularity as an investment asset class in Hong Kong," says Lui. Under the new regime, VATPs need to be licensed by the SFC to provide virtual asset trading services in Hong Kong.

Overall, while the SFC takes a neutral approach to technology and embraces innovation, it does so without compromising investor protection. "Take the VATP regime as example. If you look at the regulations, you'll see that we're putting in place stringent guardrails such as governance procedures, segregation of assets, token admission and other measures while we allow retail participation, learning from the FTX collapse and others," says Lui.

Driving sustainability

In July, the International Organization of Securities Commissions (IOSCO) endorsed the International Sustainability Standards Board's (ISSB) sustainability-related financial disclosures standards, prompting the SFC and other member securities regulators to adopt and apply the standards in addressing sustainability-related risks and opportunities. Lui proudly points out that the SFC has been an early contributor in the global discussion on sustainability, partly thanks to its former chief executive officer, Ashley Alder, serving as IOSCO board chair for six years.

"I have to give a lot of credit to our colleagues here," he says. "Very early on, we decided that sustainability is important and we need to be on top of it, and at the appropriate time, see what Hong Kong needs to do to be at the forefront of this." That time is now, and the SFC is working closely with SEHK on local implementation of the standards. "In terms of how to mandate climate-related information reporting by listed companies, SEHK has launched a consultation on this, which will be concluded in due course."

An important part of the process will be to work with the CSRC, says Lui, given the number of Mainland companies listed in Hong Kong. "If we're going to achieve anything, we need these Mainland enterprises to fall in line as well, and that's why we need to actively engage with CSRC."

He notes that successfully implementing the ISSB standards in Hong Kong will require a lot of work, but this is important for the city's positioning in the long term. "Climate disclosure is a very complicated subject matter. We would need to deal with pragmatic issues like the timeline and consider whether different approaches exist to achieve the same result – a proportionate approach is currently preferred. We still need to work on these, but the commitment is to be one of the earliest jurisdictions to do this, and showcase it to the world."

Another goal is to enable Hong Kong enterprises to keep carbon emission levels under control. "Achieving Hong Kong's climate goal as well as the nation's will be beneficial globally. But these are very tough targets so we all have to work together to get there," adds Lui, referring to Mainland China's "30-60" climate goals (to achieve peak carbon by 2030 and carbon neutrality by 2060).

Lui sees huge potential for the accounting profession in the area of sustainability. He highlights that auditors have long been the key to the integrity of Hong Kong's financial system, and will equally play a key role in the sustainability reporting ecosystem. "By continuing to uphold their professional values and ethics in conducting sustainability-related work, auditors can help strengthen market confidence as well as drive best practices across companies," says Lui.

Transition finance in particular presents a major opportunity for CPAs, he says. While green transition is essential, it won't come cheap, and financing such a transition will be a major challenge. "In China, the green segment accounts for only about 10 percent of the country's gross domestic product, which means that 90 percent of its economy would require a low carbon transition. A lot of transition finance will be needed, and accountants clearly have a role to play in terms of assessing, auditing as well as advising on green finance products."

> **"By continuing to uphold their professional values and ethics in conducting sustainability-related work, auditors can help strengthen market confidence as well as drive best practices across companies."**

Top of his game

"It has been a tremendous journey for me," says Lui, looking back at his career – from his 40 years at PwC to establishing himself as a tax expert, and to his return to Hong Kong during the city's golden era.

After graduating from university in the United Kingdom, Lui joined Coopers & Lybrand in London in 1978. The choice at that time was either a career in accounting or law. "Both skill sets, I think, are very essential to whatever you want to do in the future. You can stay in the profession or move into other areas," he says. "Coopers accepted me, so I gladly joined them as an articled clerk, and never looked back."

After two years in the assurance business, an opportunity came up for Lui to try out other areas at the firm. He moved to taxation and, as he puts it, fell for it. "Tax advisory work is coming up with the most effective structuring of either a transaction or deal, and you need to be on top of your game to do that. The client is very appreciative of your work and you get immense satisfaction from that."

He adds that in those days, with the interaction between Hong Kong and the Mainland, and between the Mainland and the world, China tax specialists were keenly sought after. Lui served as chairman of the Institute's former Taxation Committee for 12 years, and stayed involved as a member for several more.

He moved to Coopers & Lybrand in Hong Kong in 1984, a time when the city was quickly emerging as a preferred destination for global investment. "I was very fortunate because those were the golden days of Hong Kong as business was

In July, the International Organization of Securities Commissions endorsed the International Sustainability Standards Board's sustainability-related financial disclosures standard, signalling to the Securities and Futures Commission to adopt, apply or make reference to the standards in addressing sustainability-related risks and opportunities.

Lui joined Coopers & Lybrand (now PwC) in 1978, and stayed with the firm for 40 years. There, he developed into a tax specialist, and served as lead director of the board of partners and a member of the global board.

booming. You saw tremendous growth in the firm, tremendous opportunities for everybody, including myself," says Lui.

Coopers & Lybrand merged with Price Waterhouse in 1998 to create PwC. He says that, until his retirement from the firm in 2018, he never once thought of leaving it for other pursuits. "Different things opened up for me in those 40 years at the firm. I had the privilege of joining the global board of the largest accounting firm in the world. This sort of experience doesn't come around very often, right?"

Honesty and professionalism

After his time as Institute president came the start of his public service, mainly in educational affairs. "It just so happens that I've engaged myself in a lot of aspects of education," Lui says.

He had been chairman of the Education Commission, which advises the government on the overall development of education, from 2015 until the start of this year. He was previously chairman of the Committee on Self-financing Post-secondary Education, the Joint Committee on Student Finance, and the Standing Commission on Directorate Salaries and Conditions of Service. He currently chairs the University Grants Committee. "The experience has been very valuable because you understand more about how things work in Hong Kong, your circle of contacts becomes larger, and you get to apply your professional expertise and experience to helping Hong Kong move forward," says Lui.

In his fulfilling journey in public service, his skills and experience as an accountant played a key role. "Quite a number of those in public service are accountants because they're trained to have integrity and sound judgement. These are attributes that I think the government is looking for when they appoint committee members," he says.

Lui likes to speak his mind, and believes this is valued in a committee setting. "I sometimes tell government bureaus that I disagree with them, so I will speak up. I think this is why professionals are well sought after," he says. "If you don't see eye to eye, it doesn't matter. Just lay things out on the table and sort it out."

"The reputation of the Hong Kong Society of Accountants and now the HKICPA, and the recognition of our members, have been very high. As a member, you're proud of that because your qualification means something."

In his role, steering the strategic directions of an institution like the SFC, those fundamental attributes of a CPA have time and again been proven to be important. "My predecessor is an accountant, his predecessor is also an accountant, so we have a family tree here. And it's because of the training," says Lui, referencing Eddy Fong and Carlson Tong, both former chairmen of the SFC who are also Institute members. "The other thing is, as chairman, there's also a lot of governance aspects that you need to be involved in, and my experience as the lead director of the board of partners at PwC has helped."

The next generation

Lui's advice for young and future accountants is to focus on honing their communication and language skills. "Both English and Chinese. If you also speak Spanish, then you've covered 98 percent of the world, so that's even better," he says.

"You also need to be knowledgeable about what's happening around you, both globally and particularly in China. If you can excel in a particular area, there's a lot of value," he adds. Indeed, Lui has witnessed the shift to advisory work driving the profession's evolution over the years. "Firms have had to adapt and consulting now has so many dimensions. Advisory roles are where accountants are able to flourish because of the value they can bring to clients," he says.

Lui also urges young members to avoid complacency. Nowadays, with the fixation on technology products and work-life balance, people seem to be getting too comfortable in their jobs, he notes. "Working hard is not a bad thing. It can have real benefits and will hone you into a much better person. If work needs to be done, try and do it to the best of your ability," he says. The most important thing is to still enjoy what you do, Lui adds. "Because life is short. Find what you're good at and interested in, and go for it."

As a former president of the Institute, Lui has kept a keen eye on its developments. He urges the Institute to continue to innovate when it comes to creating value for members. For him, one thing must remain constant: "The Institute must keep up with its international standing, and continue to take a leading role on the global stage."

To Lui, it all comes down to a reputation that has stood the test of time and continues to make him a proud member as the Institute celebrates its semicentennial. "Over many years, the reputation of the Hong Kong Society of Accountants and now the HKICPA, and the recognition of our members, have been very high. As a member, you're proud of that because your qualification means something," he says. On a personal level, he's even more proud of the memories made. "I became president in a very historic year, and that is an experience that you cannot repeat. It will be a fond memory of mine forever."

RIDING THE DIGITAL WAVE: TAKEAWAYS FOR THE PROFESSION

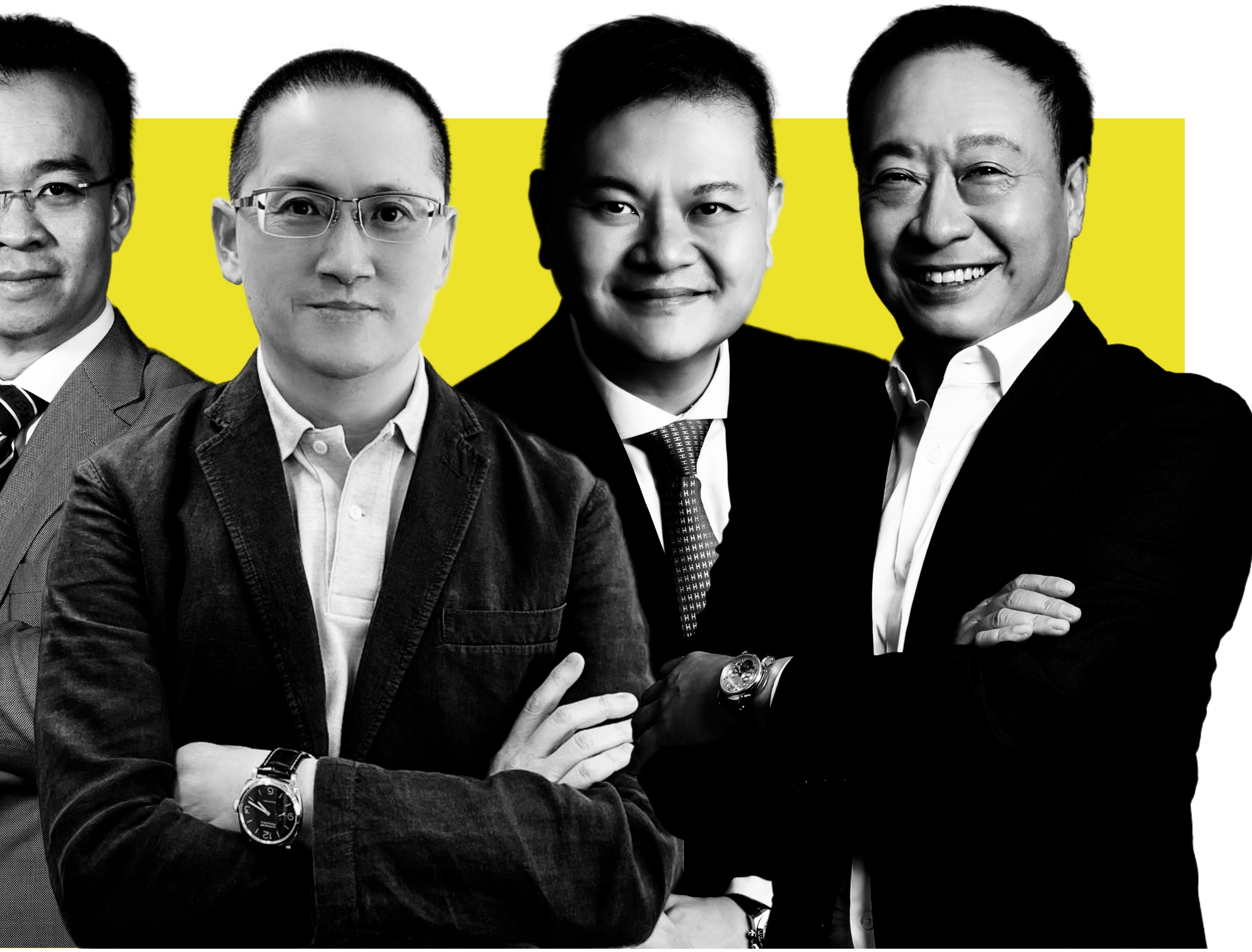
The Institute hosts a roundtable discussion on the current development of new technologies, how they are being applied, and the skills accountants need to work effectively and seize opportunities in the digital economy. Jolene Otremba reports.

In an era of rapid technological advancements, few industries have been left untouched by the transformative power of innovation. From automation and artificial intelligence (AI) to cloud computing and data analytics, these technologies have disrupted the accounting profession and are reshaping the way accountants operate, unlocking new efficiencies, insights and opportunities.

At a roundtable discussion hosted by the Information, Communications and Technology Interest Group (ICTIG) of the Hong Kong Institute of CPAs, a group of experts came together to discuss these opportunities and the potential pitfalls of new technologies on the profession, offering their insights and exploring the benefits, challenges and future implications for professionals in a fast-evolving field.

Fred Sheu, National Technology Officer for Microsoft Hong Kong, kicked off the

(From left) Vincent Chan, Co-Convenor of the Information, Communications and Technology Interest Group Organizing Committee and Institute member; Anthony Chiu, Chief Systems Manager (Data Analytics) from the Office of the Government Chief Information Officer; Harry Lin, Partner and Technology Head for Hong Kong at Russell Reynolds Associates; and Fred Sheu, National Technology Officer for Microsoft Hong Kong



conversation by talking about the inevitability of technological evolution in the accounting profession. "Every industry around the world is leveraging technology to help them do their work and be more productive," Sheu said. "They are using tools and workplace technology for enterprise types of application for meetings, word processing, calculations. The evolution is very fast and the industry itself must keep up to pace while employees must keep up with the new skills that are required to leverage those technologies."

Each of the speakers then shared what excites them in terms of the impact of technologies on their respective fields. Anthony Chiu, Chief Systems Manager (Data Analytics) from the Office of the Government Chief Information Officer (OGCIO), spoke of the numerous initiatives that the Hong Kong government is rolling out that capitalizes on technologies to help move society forward. In particular, the application of AI and blockchain.

"I think what is really exciting is undoubtedly the use of AI and the use of blockchain. For example,

blockchain can be used in an area like e-licensing or certificates. This is one area that some government departments are pursuing as an alternative to paper certificates," he said.

Vincent Chan, Co-Convenor of the ICTIG Organizing Committee and Institute member, who is also a Partner in Consulting at EY, said that he doesn't see technology as a threat. "What really excites me is that there are a lot of things that accountants want to do. They want to be more effective, more efficient, and in the last decade we started using things like human robotics and process automation. That was really the start and the taste of what AI can do today. And now technology is at a stage of maturity and is becoming accessible even to small and medium practitioners, so it's quite an exciting landscape."

For Harry Lin, Partner and Technology Head for Hong Kong at recruitment company Russell Reynolds Associates, technology and the advent of AI has created a significant impact on executive recruitment. He said that it has transformed the way the company is able to identify and access senior and high-level executives, making sourcing and screening much more efficient, and making it easier for the company to identify potential candidates.

"And now technology (AI) is at a stage of maturity and is becoming accessible even to small and medium practitioners, so it's quite an exciting landscape."

"Now, we have a much bigger pool and are able to identify and source our candidates with more accuracy. We have both AI and advanced analytics to analyse large volumes of data and market trends to facilitate data-driven decision making, technologies to enhance candidate assessment like psychometric testing, and so on. Those are really helping us to evaluate our executives," Lin said.

Application of digital technology

Throughout the discussion, efficiency and effectiveness emerged as the key words and were consistently brought up, underscoring their paramount

importance in the context of technological disruption within the profession.

The speakers discussed how advanced technology such as AI are enabling accountants to streamline processes, automate repetitive tasks and extract valuable insights from vast amounts of data, revolutionizing the way accountants operate and deliver value to their clients. "AI and blockchain are really revolutionary," Sheu said. "AI can do many things that humans cannot do, and we are seeing it like never before."

"With generative AI, you can quickly mine data and identify trends. You can quickly identify why a business is growing, why there is a spike in sales."

As an example, Sheu talked about the power of generative AI, which refers to technology that uses deep learning algorithms to generate new data and content, explaining how it is transforming the accounting function and bringing real value to businesses.

"With generative AI, you can quickly mine data and identify trends. You can quickly identify why a business is growing, why there is a spike in sales and even identify what's happening in the business," he said.

Sheu encouraged organizations to adopt technologies such as AI and to view it through a co-pilot lens. Such technologies, he noted, should be seen as something that helps to raise efficiency and effectiveness, and not something that should replace the deduction process.

On this note, Chiu said the government is now more focused on data-driven decisions. Whether it is in policy making or daily operational decision making for the city, big data has become an important part of all decision making. He noted that another change he has noticed is that data used to be siloed within each individual department, yet today, interdepartmental sharing has become critical.

Citing new projects, such as the traffic data analytics system, Chiu explained that this project requires information and data from the Transport Department as well as the Hong Kong Observatory. The government has been taking additional steps to create new insights into prediction data and making it open to the public so that industries can develop their own prediction modeling systems themselves.

Ethics and risks

The conversation turned to the issues around the darker side of technologies. In terms of privacy, security and the ethical use of technologies, accountants today must proceed with caution.

One challenging issue is the non-transparency of AI systems and their inner workings. "AI is a black box. When it comes to transparency, my take is whatever tool you use you must know the subject matter, use it smartly, and like what we just launched at EY, we use it in a closed environment. Professionals can use secure versions of these new technologies," Chan said. EY launched its "EY.ai" platform in September which it says combines the firm's vast experience in strategy, transactions, transformation, risk, assurance and tax alongside EY's technology platforms and AI capabilities. The platform is believed to create value by harnessing the power of AI through a safe and secured environment.

The speakers also advised caution in the use of cloud computing. Chiu noted that within the government, cloud technology has become a huge area that it is investing heavily into. However,

privacy and security remain a priority in its adoption and development, and organizations and accountants would be prudent to follow suit.

"We must always have security in mind and when we put the data and systems into a cloud environment, in particular a public cloud environment, proper security protection and the appropriate contract terms must be adopted," Chiu said.

While many big organizations have adopted a hybrid cloud scenario, Sheu says that it is important to identify and understand what data can sit inside and outside of the cloud to prevent any data breaches or leaking of personal information. He also mentioned how organizations can use other technologies to help with compliance to reduce any margins of error and improve accuracies.

"It's really about setting out the policy and procedures, getting legal, governance and particularly security involved, creating a balance between convenience and safety, having accountants involved in setting and monitoring the rules to use these tools securely and safely, and adhering to all the different regulations," Chan said.

> "We must always have security in mind and when we put the data and systems into a cloud environment... proper security protection and the appropriate contract terms must be adopted."

The speakers also agreed that organizations and leaders must lead by example and advocate the ethical use of technologies and constantly communicate what this means. This is why technology needs a seat at the table, they said. When it comes to cloud computing, big data, machine learning and the advent of other technologies, businesses need to build models that take into consideration the business objective, its project, vision and whether it has the right people and skillsets to navigate these changes.

"Do you have the right people who are able to understand and use these technologies, to ethically implement the right technologies or tell a story to get stakeholders' buy-in or drive transformation?" Lin asked.

Digital skills

It was agreed that accountants and businesses will have to change the way they approach the accounting function's role. But it starts with recognizing that while technology is powerful, the human in the loop remains paramount and businesses can only rely on it for what it is – a function.

"It's there to help us make more informed decisions. It's helping with efficiency, but does it mean robots will replace us? No. At the end of the day, we are in the people business that is built on trust, personal assessment and soft referencing. AI is absorbing data and learning and that is something that supports us, but it can't replace us," said Lin.

With that, the speakers explored how the role of accountants has changed, given today's digital environment. For starters, the speakers noted that technologies such as cloud computing and AI, while powerful, remain limited and can produce incorrect results. For this reason, an accountant's aptitude remains critical.

Skills such as critical thinking and fact-finding will become even more important, and the profession must be prepared for the changes to the skillset requirements on accountants, noted the speakers. "Accounting used to be perceived as mundane and tedious, but now with the advancement in technology and AI, it can be more interesting. The human interaction will be about asking questions and framing questions, rather than number crunching," Chan said. "So aside from predictions, unusual transactions, you have now got to learn what you can do with AI."

Lin, who has been involved in searches for numerous technology leadership positions, said that there is a noticeable shift in the requirements for chief financial officer roles today. "Clients are looking for a range of digital competences in CFOs and accounting professionals – they are looking for proficiency in data analytics, being able to extract and identify patterns, and being able to use certain tools," he said.

Lin also noted that companies are looking for people with the ability to work with automation and are knowledgeable in robotic process automation software which

> “Clients are looking for a range of digital competences in CFOs and accounting professionals.”

streamline repetitive accounting work. And thirdly, he said that clients are looking for CFOs who have experience working on digital transformation.

“A lot of organizations are going through the transformation journey, so they need someone who can appreciate project management and is able to communicate that to stakeholders. They must have an appreciation for technology and what’s out there and get people comfortable with it,” Lin said.

And this is where people with strong storytelling skills are also in demand. Chan said that the ability to articulate a vision upwards and downwards is important because if you can’t get your people on board to move the ship, it all becomes a moot point.

Lin agreed, saying that mindset change is always the biggest impediment to the adoption of new technologies and thus user buy-in at all levels is key. “A strong CFO must be able to articulate the numbers, the technology and the vision to get the stakeholders to buy-in, so you have to convert the mindset from technology as a cost centre to it being a revenue-growing opportunity, and how do you tie this to your revenue growth stream,” he said.

The speakers agreed that ultimately any technologies invested into an organization must have a clear purpose. Lin emphasized the importance of finding people with the right “T-shaped” skills. Explaining that the vertical part of the “T” are the technical and financial skills, while the horizontal part of the “T” are the leadership, strategic planning, risk assessment and communication skills. “These roles are now combining technology with leadership and business savviness,” he added.

In addressing all the points that were raised, the panel concluded with a quick discussion on ways that they could help to up-skill the profession to keep pace with innovation and technology.

Continuous learning, technology training, networking and collaborations as well as mentor coaching came up as some ways to instill a strong digital mindset within the industry. But they cautioned that looking ahead, many challenges will remain and it’s not necessarily related to the adoption of new technologies. “I think people change will continue to be the biggest hurdle into the future,” said Chan to the agreement of the others.

In September, EY announced the launch of EY.ai, a platform that has artificial intelligence (AI)-embedded versions of the firm's consulting products like the data management product EY Fabric. The firm said it has invested US$1.4 billion in AI.

Becoming better: Navigating Hong Kong's B Corp movement

Becoming a B Corporation, or B Corp, is a time-consuming and transformative journey for businesses, enabling them to have a positive impact on communities, and the planet. Jemelyn Yadao explores Hong Kong's growing B Corp movement, and talks to Hong Kong B Corps about the process and how the certification can be good for business

Illustrations by Gianfranco Bonadies

Excitement and relief took over the office of Hong Kong-based L'Occitane Far East Limited at the end of August – it was time to celebrate. After an almost three-year long process, it was confirmed that L'Occitane Group was now a certified B Corporation or B Corp.

"The team prepared these lovely cupcakes with the B Corp logo on them. Anticipation had been building while we received regular progress updates, so when we finally had the certification we were so proud, especially as our target was to get it in 2023," says Angela Chan, Finance Manager at L'Occitane Far East, part of the French luxury retailer, and a member of the Hong Kong Institute of CPAs.

Chan is one of many Institute members working for B Corps, which have seen a rapid growth globally. There are 7,633 B Corps around the world covering 92 countries, as of 24 October, ranging from small and medium enterprises to large public companies.

B Corps are companies that meet high standards of verified social and environmental performance, accountability, and transparency, set by global non-profit organization B Lab. The organization was founded in 2006 with the idea "that business could lead the way towards a new, stakeholder-driven model." One of the world's biggest B Corp is Natura &Co., a multi-brand cosmetics group which includes Avon, Natura and The Body Shop.

In Hong Kong, while the B Corp movement is still at its early stage of development, the buzz around the certification is building. It took four and a half years to have the first 10 B Corps in Hong Kong and two years for the next 10, says Gilbert Lee, Founding Director of B Lab (Hong Kong & Macau), which has clear ambition.

"We now have 27 certified B Corps in Hong Kong, and we aspire to have 100 certified B Corps by the end of 2026. By that time, we'll have a critical mass to generate awareness to the wider public and pitch to the government and Hong Kong Exchanges and Clearing (HKEX). We could also have a bigger collective voice to encourage the business community, especially big listed companies, to reconsider their sustainability strategy," he says. B Lab, he explains, are introducing the B Corp concept to the government and HKEX, with the aim of the B Corp certification mechanism being considered in the environmental, social and governance (ESG) reporting of listed companies.

According to B Lab, there are currently more than 1,000 users registered in the B Impact Assessment (BIA) for companies in Hong Kong, which is the evaluation tool companies complete during the process of certification. The tool quantifies a company's impact across five areas: governance, workers, community, environment, and customers. Becoming certified requires a company to have a minimum BIA score of 80; change their corporate governance structure to be accountable to all stakeholders; and allow

> "We now have 27 certified B Corps in Hong Kong, and we aspire to have 100 certified B Corps by the end of 2026."

information about their B Corp certification performance to be publicly available on the B Lab website.

Every B Corp needs to be re-certified every three years to keep its B Corp status, with B Corp standards evolving to stay up-to-date with best practices in impact measurement. The BIA is now on version 6, and version 7 will likely be in place next year, says Lee.

Walking the talk

The growth of Hong Kong B Corps is being driven by a number of factors. One is that more companies are now looking to obtain certification for their environmental and social impact, says Lee. "A number of companies, led by veteran entrepreneurs or a visionary leadership team, aim to be pioneering and future-proof in business sustainability because winning in ESG will become more crucial and prevalent in the future," he says. "Specifically, for start-ups or investees, several investors consider B Corp standards more holistic, universal and stringent, and applicable across different sectors." Some companies consider certification, especially one that is widely accepted and has rigorous standards, to be proof of no greenwashing, he adds.

Growing regulatory pressures concerning corporate carbon emissions and ESG reporting are also driving the movement today. "I think there are some types of external pressure, and we see that some brands are being able to communicate better about their sustainability commitments, and usually that comes with an external assessment because it's more powerful when you can communicate with concrete data. So we really wanted to follow the footsteps of companies that are more advanced in professionalizing their sustainability journey," says Venisa Chu, Regional Sustainability Director of Asia Pacific at L'Occitane Group.

For Hong Kong B Corps, a common reason for participating is that the certification reinforces the companies' existing values related to ESG, and that becoming a B Corp aligns with the company "DNA." This was the case for AvantFaire, an asset management firm focused on impact investing. It began the process in July 2019. "At that point, only eight companies in Hong Kong were B Corp certified. After thorough research, we found that a B Corp's ethos deeply aligned with AvantFaire's vision of building a better society," says Joseph Leung, Managing Partner at AvantFaire, and an Institute member.

> "We really wanted to follow the footsteps of companies that are more advanced in professionalizing their sustainability journey."

"Being a certified B Corp acknowledges the fact that we are walking-the-talk, focusing on the success of both shareholders and stakeholders," says Allan Chan, Managing Director of Hong Kong B Corp Happiness Capital.

Another big draw is the potential of having a better chance of winning over conscious consumers than non-B Corps. Tecky Academy, a technology education provider with a focus on generative artificial intelligence development, and a B Corp, says that it wanted to bolster its commitment to benefiting the local community in the eyes of customers.

"With the evolving market dynamics, where customers now place a significant position on the core values of a company, and the inherent challenges in verifying the quality of coding bootcamps on the market, we embarked on this journey to further solidify our position and showcase our dedication," says Vickie Choy, Principal Advisor, Business Development of Tecky Academy.

Navigating challenges

Going through the certification process can be a huge endeavour. Prospective B Corps must answer around 200 questions within the assessment, using data from the previous 12 months. "Many questions are not easy to understand for many companies in Hong Kong, credible evidence is needed, and it costs a considerate amount of time," Lee of B Lab says.

The challenges companies faced in ensuring practices meet the standards of the BIA framework varied. Leung was in charge of the certification process at AvantFaire, and says that certain judging criteria, while universally applicable, can be less accommodating to the Hong Kong context. "Specifically, areas related to leave policies and benefits for part-time workers posed distinct challenges. Recognizing this, AvantFaire took proactive measures to bridge the gap, introducing improvements such as providing birthday leave and leave for celebrating unique occasions like family day," he says.

Small companies or start-ups can encounter difficulties due to the lack of precise or any carbon emission data. "The environment section of the BIA proved challenging, especially given our start-up nature and being in the education sector. We had constraints in terms of budget and resources to efficiently monitor and track energy usage," says Choy.

Angela Chan at L'Occitane mentions the inherent difficulties of collecting data on the entire value chain, which goes beyond the company's own operations. During the process, she coordinated the enrolment of suppliers onto EcoVadis, a digital platform that allows companies to assess the environmental and social performance of their suppliers. This involved asking them to provide carbon emission-related data and information on the usage of

commodities such as wood, plastic and metals. She also worked on collecting code of business conduct letters from suppliers.

This raised questions. "At first they would ask, 'why do you need our involvement in this journey?' I need to tell them we are improving our company's transparency to fully understand the ESG performance of our operations and the businesses that we work with. And then I needed to frequently follow up with them to get the information we need before the deadline," says Angela Chan.

Getting the suppliers' buy-in relied heavily on Chan's communication and interpersonal skills. But it also depends on their size. "The larger ones, for example, our transportation logistics partner, already have their own ESG commitments, so they get it and they might've been already doing their own assessments," says Chu. "But for the smaller suppliers, especially in APAC and Hong Kong, they might not have heard about ESG, or about why it's part of the discussion. Usually they talk about price, the product delivery time, but now the added requirement is, what is your sustainability performance?"

Key takeaways

The certification process can be a valuable learning experience. Because of its comprehensive nature, the process helped companies realize areas of improvement.

Harris Lo, an Institute member, was in charge of the process in his role as Head of Operations at Maison Capital, and says he gained a better understanding of ESG and how it impacts the business operations of the private equity firm. "You have a better understanding of the areas we should be paying attention to. For example, you might be thinking, 'how does ESG relate to workers?' The workers section asks about profit allocation – what was the equivalent percentage of profits that were distributed as bonuses to non-executive workers? You learn that this is one of the items related to sustainability." Maison Capital, which operates both in the Mainland and Hong Kong, has been certified since 2020.

Indeed, Chu of L'Occitane points out that the B Corp framework gives businesses a clear structure that considers their ESG impact. "I've been in this profession for some years and before, if we don't use such a tool, you spend a lot of time trying to convince teams and

Hong Kong's B Corp movement started when Education for Good, a social enterprise focused on social entrepreneurship education, became the city's first B Corp in 2016.

trying to crystallize what they have to do. So I really appreciate the tool. It's given me a platform to communicate actions very clearly," she says.

Leung admits the certification journey was a steep learning curve. "Being an investment firm with a deep focus on impact investment, the assessment illuminated best practices for optimizing investment impact. Both AvantFaire and I learned the significance of considering all stakeholders during investment and ensuring long-term ESG commitments, even upon exiting an investment," he says.

For Happiness Capital, its initial self-assessment score was over 100, but during the verification phase the score had dropped. This indicated that doing things that are more sustainable is not enough, says Allan Chan. "One has to be able to prove that you have done it, document it, have a policy to back up why you have done what you did, and prove that there is a policy to guide everyone to do it in a consistent manner."

The benefit of formal documentation was also a key learning for Tecky Academy, which experienced a similar initial drop in points. "For start-ups, very often documentation is at the bottom of the list of tasks, but we see that it facilitates businesses to move forward and backtrack, as records are kept in order. We have become more alert of the importance of documentation especially as we expand and would need an audit trail," says Choy.

Role of the profession

Accountants can play an essential part in a company's B Corp journey, just as they have been increasingly playing a role in embedding sustainability into company strategy and decision-making. CPAs can not only help answer finance-related parts of the BIA, they can also help drive the whole process. "I navigated the assessment and verification stages. My CPA background was pivotal in reviewing documentation and buttressing the verification process, ensuring all criteria were met with integrity," says Leung of AvantFaire.

At Maison Capital, it was Lo who first brought the idea of B Corp to management, recognizing that the movement aligns with the firm's ESG investment philosophy. He says the soft skills and problem solving skills he developed while at the Big Four were useful during the process. "You have to consider the rationale behind questions in order to do the right thing," he says. After scoring above 80 points, it was time for him to exercise his skills in due diligence. "The verification process is the lengthiest part. I had calls with them to clarify the answers in different areas," he says.

Verification is one of the areas that professional accountants in business can play a key role in the growing B Corps movement, according to the International Federation of Accountants' 2022 report, *Professional Accountants as Finance and Business Leaders*. It highlights advocacy as another area, noting that the profession can "help drive further capital markets acceptance, as well as recognition by companies of the long-term value of becoming B Corps certified. A company starting its B Corps journey needs C-suite and board support because it is a lengthy, public process that will also require shareholder agreement. The chief financial officer in particular can be an influential voice."

Allan Chan of Happiness Capital, who previously worked as a CFO, agrees that CFOs have a critical role in the certification process, particularly as it requires companies to provide financial data that demonstrate their commitment to social and environmental goals. "The CFO and finance team are responsible for collecting and organizing this financial information accurately. They should ensure that financial statements reflect sustainable practices, ethical sourcing, and other relevant metrics that contribute to the overall B Corp assessment," says Allan Chan. "The CFO can also work to align financial performance metrics with sustainability goals. This is to ensure that financial incentives and performance evaluations encourage employees and departments to support sustainability initiatives, which are often vital to B Corp certification."

Beyond the B Corp movement, Chris Brown, Founder and Chief Executive Officer of EnviroEvents HK, sees the value of the profession in the broader sustainable transition. His company runs ReThink HK, the annual business event for sustainable development. "Proving the business case for transition is still such a significant challenge for most businesses, especially small and medium enterprises. Accountants will be playing a critical role in helping to present the finance models that support investment to accelerate the transition and that will, ultimately, yield sustainable growth," he says.

A project like this one will feel new to a lot of people, which is why CPAs who are currently on the B Corp journey are encouraged to raise their hands and ask questions. They should also be prepared to think out-of-the-box. "Don't rely only on existing procedures, but instead think of how else you can do something good for the planet," L'Occitane's Angela Chan says.

Leung of AvantFaire's advice to CPAs is to approach the B Corps certification holistically. "It's not just about meeting standards but genuinely imbibing the philosophy. Engage every department, ensure transparency, and remember it's a continuous journey of improvement, not a one-time achievement."

"My CPA background was pivotal in reviewing documentation and buttressing the verification process, ensuring all criteria were met with integrity."

How to achieve B Corp status

With the benefits that receiving a B Corporation, or B Corp, certification could bring – having a competitive advantage, increased trust with consumers, and a sense of purpose among employees – some companies may be motivated to start their B Corp journey.

Companies are encouraged to start as soon as they can as obtaining certification can be a lengthy process. "Begin the assessment and documentation process well in advance to allow time for adjustments and improvements," says Allan Chan, Managing Director of Happiness Capital.

"Some companies might be afraid to see what their score is and they might delay it, but as soon as you set the baseline, you can start the roadmap to improve," says Venisa Chu, Regional Sustainability Director of Asia Pacific at L'Occitane Group. After setting its baseline score, the company in 2021 had set an interim goal for the group to reach a score of 70, which it had surpassed in March 2022. "Since then, I think the teammates felt more of a momentum that we're really going to pass 80."

Companies are also advised to understand that the certification is a long-term commitment, particularly as companies are required to take the holistic assessment every three years to maintain their certification. "It's not just a badge," says Chan. "Ensure that the company's leadership and stakeholders are genuinely dedicated to social and environmental responsibility. Make this commitment a part of your company's culture." Vickie Choy, Principal Advisor, Business Development at Tecky Academy, agrees. "Patience and persistence will be your allies. Think of this not just as a certification but as a blueprint for shaping your company's future with purpose at its heart."

Chu believes companies should try to involve all employees in the movement, for example by introducing a performance bonus related to the B Corp certification. "It rewards everybody because it's a project for everybody. And there are not many projects in a company that involves everybody."

Ada Chung

The Privacy Commissioner for Personal Data (PCPD) and member of the Institute on how the accounting profession could embrace generative artificial intelligence while managing its privacy and ethical risks

Navigating the privacy and ethical challenges of generative AI

As industries across the board are embracing the transformative power of generative artificial intelligence (gen AI) in their operations, the accounting profession is of no exception. In July, a world-leading accounting firm committed at least US$2 billion to the development of its cloud and gen AI tools. In October, another leading firm launched an AI chatbot that claimed to have capabilities on par with an industry veteran.

Although gen AI promises to reshape the way we work and unleash new growth potentials, is it completely risk-free?

First, what is gen AI? According to an answer given by ChatGPT, one of the better known applications, it is "a subset of artificial intelligence that learns from data and uses it to create new content, such as images, text, or music, that is similar but not identical to the data it was trained on." Gen AI has wide-ranging uses. For example, it can "read" documents, turning invoices into expenses; it can analyse voluminous documents like annual reports and financial statements, spotting patterns overlooked by humans, such as irregularities in an expense account; and it can aid analytics, enhancing cash flow management by predicting payment behaviour. Lastly, it can also produce context-specific reports, including tax agreements and responses to customer enquiries. These capabilities promise an array of potential benefits for the accounting profession: higher efficiency, improved accuracy, lower costs, better decision-making, higher customer satisfaction and bolstered compliance.

Privacy pitfalls and ethical risks

Although gen AI is fast revolutionizing accounting practices, it is worthwhile to address its privacy and ethical challenges. To analyse the privacy risks involved, we may refer to the Data Protection Principles (DPPs) in the Personal Data (Privacy) Ordinance that cover the entire lifecycle of the handling of personal data.

The first risk relates to data collection. Training a gen AI model requires a vast amount of data. If the original purpose of collecting such data does not include AI model training, the principles governing collection and transparency (i.e. DPPs 1 and 5), which require the collection of personal data in a fair manner and on an informed basis, may have been circumvented.

Interactions with gen AI tools pose another risk. User inputs, such as client inquires, may contain sensitive information like identity card numbers. If this data is repurposed for gen AI training, the use limitation principle (DPP 3) might be violated.

The third privacy risk relates to the practicality for users to access and correct their personal data (DPP 6) and the feasibility of controlling the retention of data (DPP 2), given the sheer volume of training data.

The fourth risk relates to data security (DPP 4). As gen AI systems store a huge amount of user dialogues and are susceptible to "jailbreaking," the consequences of the leaking of client information cannot be overstated.

Lastly, gen AI poses ethical risks. It is challenging to interpret gen AI's decisions as the breadth of training data makes tracing outputs to specific inputs difficult. Furthermore, gen AI models may give incorrect statements, especially when the dataset is biased or contains discriminatory information.

Guidance and regulations

To foster an environment where AI can evolve and operate while respecting privacy and data protection, regulations and laws have been proposed or implemented. The former includes the European Union's proposed Artificial Intelligence Act while the latter includes the Mainland's Interim Measures for the Management of the Services by Generative AI, which is the world's first regulation tailor-made for AI-generated content.

Apart from regulations, governments and regulators have issued guidance and recommendations on AI deployment and development. At the time of writing, the Mainland had just introduced the Global AI Governance Initiative, which outlines the country's proposals on AI governance. Locally, in August 2021, the PCPD published the *Guidance on the Ethical Development and Use of Artificial Intelligence* (guidance).

By outlining a framework for deploying AI while respecting privacy and minimizing ethical risks, the guidance aims to facilitate the safe, healthy and ethical development and use of AI. To achieve this, the guidance proposes three sets of recommendations, comprising (a) three data stewardship values (being respectful, beneficial, and fair); (b) seven ethical principles (accountability, human oversight, transparency and interpretability, data privacy, fairness, beneficial AI and reliability, robustness and security); and (c) a four step-practice guide covering the establishment of an internal governance structure, comprehensive risk assessments, execution of AI model development and system management, and robust communication with stakeholders.

In addition, we recommend that AI developers or users adopt a personal data privacy management programme, which is in essence a management framework for the responsible collection, holding, processing, and use of personal data. The programme, which highlights organizational commitment, proper programme controls, and ongoing assessment and revision, would help to enhance data security for organizations and allow them to manage AI-related privacy risks.

Accountants playing a role

Accountants, whether they are professional accountants in business or in practice, would have to understand, and cope with, the revolutionary changes brought by gen AI to the profession. Very often, accountants would be the ones liaising with the information technology team, or alternatively, supervising or auditing the team to ensure the operation and security of the information systems of organizations. It is important, therefore, for us to engage in a dialogue to rise to the challenges, and to build a stronger profession which is also savvy about technology.

SECOND OPINIONS: HOW CAN CFOS PLAY A CENTRAL ROLE IN ACCELERATING DIGITAL TRANSFORM-ATION?

DANNY HO
EXECUTIVE DIRECTOR AND CFO AT SA SA INTERNATIONAL HOLDINGS LIMITED, AND AN INSTITUTE MEMBER

A company's business and revenue model establishes a path to profitability, while the chosen industry lays out the boundary for the size of the attainable "pie." How a company sets and implements its chosen strategy will determine its success in that industry.

I look at technology as an enabler that can help a company turbo-charge its strategy, whether through raising productivity or serving existing customers better or reaching new markets, thereby increasing the size of the pie. In order to succeed, it's important not to look at digitalization as a separate strategy or a standalone. It must start with the overall company strategy with digitalization overlaid and an inseparable part, ensuring goal congruence across the organization.

Therefore by design, digitalization will have top management backing and be driven from the top with all functions held to account for the company's achievement of the overall objectives. With chief financial officers' remit often covering oversight for strategy, technology and data, they are increasingly charged with the responsibility for championing the adoption of technology and ensuring company performance is benefitting in the present and future. With their financial training and ability to decipher unit economics and the dynamics of financial performance, they are uniquely placed to assess the value-add from proposed digital implementations. Ensuring projects are managed against "objectives and key results" and delivered against timelines and budgets are part and parcel of their governance. Almost everything digital looks fancy, but not everything digital is value accretive.

Depending on the size and type of implementation, having the right talent in place to see the digitalization through is essential, and not solely IT talent. Being tech-savvy and having awareness of how digital can add value in the operating departments is equally or even more important. These are the teams that will use and benefit from the technology adoption, and need to be at the front line when it comes to digitalization, otherwise projects run the risk of failure.

With responsibility for company finances, CFOs are also able to balance and prioritize strategies and investments, including digital investments, across the short to longer-term timeframes, managing the expectations of functional departments striving for the same capped resources.

With a seat on the board, CFOs also manage upwards, seeking support for investment and aligning understanding of the challenges of change and the reason for exercising patience where patience is due. Sheltering functional departments during the process and ensuring full support for digitalization implementation are factors to success.

> "Ensuring projects are managed against 'objectives and key results' and delivered against timelines and budgets are part and parcel of their governance. Almost everything digital looks fancy, but not everything digital is value accretive."

SAMMY YEUNG
REGIONAL FINANCE LEAD,
GREATER CHINA AT WORKDAY,
AND AN INSTITUTE MEMBER

Today, CFOs need to focus on value creation while anticipating and navigating what's coming next. But how do they do that? It starts with having the right insight at the right time, and the adaptability to keep up with the velocity of change, such as major business disruptions like mergers and acquisitions and regulatory changes.

CFOs need to support their organizations to leverage vast amounts of accurate data and transform it into meaningful insights. However, most CFOs today don't have the right data, in the right format, or at the right time to drive impactful decision-making.

They need resilient, efficient, and flexible financial processes to spot trends and adapt quickly to external changes. They need an intuitive user experience that gets answers at the speed of thought for today's digitally native finance and accounting workforce. All of this requires a fundamentally different relationship with technology and data that removes obstacles and gets those insights into the hands of decision-makers as quickly as possible.

> "It is important for CFOs to partner with IT to drive transformation across the organization."

Modern technology offers many answers, but the key is simplification of the core transactional processes combined with the removal or automation of manual interventions. What today's leaders need is fewer systems with limited handoffs and one source of truth for all their data, including financial, human capital management, operational, and other data housed in the same architecture with strict data governance models in place.

It is important for CFOs to partner with IT to drive transformation across the organization, as evident from Workday's global study, Closing the Acceleration Gap: Toward Sustainable Digital Transformation, which surveyed finance, IT, and human resources leaders. The results showed that there was plenty of room for improvement to meet shifting demands around efficiency and organizational abilities. One data point showed that only half of finance leaders (49 percent) expressed confidence in the efficiency with which their organization manages among planning, execution, and analysis cycles, while roughly one-third (34 percent) said they have little to no confidence in their teams' ability to meet the demands of the business.

Transformation is not isolated to a single place, event, or time. Cloud technology can make systems faster, more nimble, and more responsive. Pausing to think about how processes can be improved and then getting them right will ultimately foster a more effective digital transformation. It is an opportunity to tackle challenges and issues that have traditionally hampered the business, and to harness the efficiencies and values that cloud technology can provide.

JOANNE CHAN
DEPUTY CHIEF FINANCIAL OFFICER
AT ANIMOCA BRANDS

There is no doubt that the role of the CFO is rapidly evolving, becoming more strategic and transformational within the organization. In recent years, CFOs have already expanded their responsibilities beyond accounting and finance. These new responsibilities include business partnering, governance, business intelligence and data analytics, to name a few. Positioned at the confluence of data, processes and cross-departmental interactions, CFOs naturally assume the leadership of business intelligence and data analytics functions. Moreover, as digitalization entails the upstream process that captures and produces data – a crucial starting point for robust business intelligence and data analytics – CFOs are well-suited to spearhead digital transformation initiatives.

Digital transformation requires an organization to rethink its business model and operations, resulting in streamlined workflows, improved customer and employee experiences and high-quality data. The company's data and analytics capabilities should be developed alongside the digitalization project to reap the benefits of high-quality data early on. Under the CFO's guidance, business intelligence and data analytics teams should develop their own parallel roadmaps to best leverage new and improved data, and extract insights in an expedient way. Harnessing data allows CFOs to offer valuable strategic guidance and support the executive team to make better decisions, optimize operations and identify growth opportunities.

> "Forward-thinking finance teams should embrace new workflows and systems... and constantly think about how best to add value to their stakeholders."

As CFOs are uniquely positioned to drive the company's strategic planning process, they play a vital role in securing sustained funding and resource allocation for multi-year digital initiatives. Continuous evaluation of the financial feasibility and project effectiveness allows CFOs to achieve successful outcomes.

Finance is the strategic hub of the company, and CFOs can inspire their finance teams to build a strong data culture. Forward-thinking finance teams should embrace new workflows and systems, learn to code and use data visualization tools, and constantly think about how best to add value to their stakeholders. CFOs, supported by a capable finance team, can facilitate effective cross-functional collaboration across various teams, such as technology, operations and human resources, and provide strong leadership to bring the project to fruition.

Overall, CFOs can drive successful digital transformation by securing funding, harnessing data and upskilling their teams. Leveraging CFOs' financial acumen, operational focus and strategic mindset, transformation can be achieved while balancing short-term financial performance with long-term value creation.

FIVE QUESTIONS FOR PAIB
Carol Yu

Senior Finance Manager at nonprofit arts institution Hong Kong Arts Centre, and an Institute member, on how CPAs can help build public trust in nonprofits by demonstrating financial integrity, accountability and responsible stewardship of resources

What are the biggest lessons in your career so far? Having worked in a non-governmental organizaton (NGO) for the past eight years, I consider financial planning and analysis to be really important. The board and executives of a non-subvented NGO have to devise a comprehensive financial analysis to plan ahead, with a view to seek funding from philanthropists and develop a business model that is self-sustaining in the long run. To me, it is also important for finance professionals to possess or develop their presentation skills. As board and executive members are usually from different backgrounds and professions, it is essential to explain complex financial concepts in a clear and concise manner.

What attracted you to the role at Hong Kong Arts Centre? Hong Kong Arts Centre is an art hub that aims to bring art to the people of Hong Kong. It has different lines of business including art programmes, an art school, venue hire, property leasing etc. I was attracted to the idea of widening my horizons by experiencing a different sector – the art world. The work environment is warm and supportive. As a newcomer, this is great, as I have to lead and work with the existing team to accomplish designated tasks. Besides this, Hong Kong Arts Centre promotes work-life balance, and organizes a variety of art exhibitions and art-related short courses which staff are encouraged to join.

You were previously head of finance at Hong Kong Breast Cancer Foundation (HKBCF). What did you learn from your time there? When I joined HKBCF in 2015, it was a small NGO based in Hong Kong Island. With the expansion of the organization and extension of its services to Kowloon, HKBCF continued to improve its internal control, risk management and corporate governance. I was heavily involved in the process by reviewing and formulating policies and procedures of the Foundation. An audit committee was formed to provide advice and recommendations on financial reporting, internal control and risk management. As a result, the corporate governance of HKBCF had been enhanced, raising public confidence. NGOs in general have increasingly acknowledged the public's expectations on them to pursue governance best practices. Part of that is adopting transparent financial management practices, and this is where CPAs can come in.

In what ways has your CPA qualification helped you in your career? The qualification and my audit background provides a strong foundation in financial accounting, auditing and regulatory compliance. The CPA qualification has also helped develop my analytical skills. I can easily understand and analyse financial statements, and therefore provide accurate financial insights to the board and executives for decision-making and risk management.

How can accountants help deal with the unique challenges NGOs face? A unique challenge for NGOs is a complex funding structure as they source funding from different funding bodies and private donors. CPAs who work in NGOs need to ensure that they have a clear understanding of the scope of each funding, and comply with the requirements of funding bodies or donors in order to maintain funding. They can help establish robust financial management systems, ensure compliance with relevant regulations, develop effective budget forecasting and cash flow management, and show enhanced transparency and accountability to stakeholders.

FIVE QUESTIONS FOR PAIP

Jet Chu

Senior Director at Alvarez and Marsal Asia Limited, and an Institute member, on how cross-border insolvency is one of the toughest areas for restructuring and insolvency practitioners in Hong Kong

What are the biggest lessons in your career so far? Taking a step-by-step approach to problem-solving is a great way to progress in your career – Do not be afraid of failure, face problems bravely and diligently, and always bear in mind that every challenge presents an opportunity to hone your abilities and expand your expertise in specific areas. Dealing with financially distressed companies or individuals can indeed be challenging, particularly when there are negative sentiments involved. It's important to approach these situations with professionalism, empathy, and a focus on finding solutions.

How did you come to specialize in insolvency and restructuring? I started in auditing and worked on some relatively straightforward liquidation work. Recognizing my growing fascination with restructuring, I decided to join the EY restructuring team. This was the beginning of my dedicated career in insolvency. At EY, I immersed myself in a wide range of challenging projects, which allowed me to further hone my skills. I transitioned to PwC before I moved to Alvarez and Marsal (A&M), a renowned firm specializing in financial restructuring and insolvency, distressed merger and acquisitions and dispute resolution. I like the dynamic nature of the work. Each project presents a unique set of challenges, requiring innovative thinking and adaptability.

What is the biggest challenge restructuring and insolvency practitioners currently face? Insolvency proceedings initiated in one jurisdiction may need to be recognized and given effect in other jurisdictions where the company operates or assets are located. However, achieving recognition and coordinating actions across jurisdictions can be time-consuming, challenging and costly. Some sizable cases involving companies incorporated in offshore jurisdictions like the British Virgin Islands or the Cayman Islands, listed in Hong Kong, and with operations and assets in China can be particularly complex. Navigating the differences between common law in Hong Kong and civil law in China can be challenging when dealing with asset tracing, enforcement and recovery exercises in China. We are delighted to see the recently rolled-out mutual recognition and assistance mechanism for insolvency proceedings between courts in three pilot cities in the Mainland (Shanghai, Shenzhen and Xiamen) and Hong Kong.

In what ways has the Institute helped you in your career? Being an Institute member enhances my professional standing. Also, serving as a member of the Restructuring and Insolvency Faculty (RIF) Executive Committee allows me to connect and collaborate with other professionals in the same field and enhance my presence in the market. This provides opportunities to build relationships with like-minded people, including fellow committee members, industry experts, and practitioners. It has also given me the opportunity to provide support to RIF members and the community.

How did your time at two Big Four firms prepare you for your current role at A&M? One significant benefit is the exposure to large-scale projects and a wide range of clients across various industries. This allowed me to gain a comprehensive understanding of different business models and their challenges. I also had the opportunity to work with diverse teams comprising professionals from different backgrounds and areas of expertise.

Welcome

QP
Hong Kong's
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香港會計師專業資格

QP Graduates – June 2023 Session

The Institute is pleased to announce that 555 QP candidates successfully completed the Qualification Programme in the June 2023 Session. The list of graduates is as below.

CHAN, Ching Long
CHAN, Ching Yi
CHAN, Chun Yeung
CHAN, Chun Yu Donald
CHAN, Chung Hei
CHAN, Claire Lok Yiu
CHAN, Ging San
CHAN, Hiu Lam
CHAN, Hoi Ho
CHAN, Kei Yan
CHAN, Kin Ming
CHAN, Kwan Lok
CHAN, Lai Ki
CHAN, Lok Pong
CHAN, Lok Yun
CHAN, Lut Yin
CHAN, Pak Hin
CHAN, Pak Lam
CHAN, Pak Shiu Jamie
CHAN, Shuk Ling
CHAN, Sze Long
CHAN, Tik Man Doris
CHAN, Tin On
CHAN, Ting
CHAN, Ting Fung
CHAN, Tsun Yin
CHAN, Tsz Hei
CHAN, Tsz Lam
CHAN, Uen Ching
CHAN, Yan Yan
CHAN, Yee Hung
CHAN, Yee Yuk
CHAN, Yu Fung
Chan, Yuk Ting
CHAN, Yuk Yu
CHANG, Fu Shing
CHANG, Tsz Lam
CHAU, Ching Man
CHAU, Sze Man
CHEN, Biyi
CHEN, Hoi Ting Rosetta
CHEN, Shiqi
CHEN, Wei
CHEN, Zexian
CHENG, Angel Jeffrey
CHENG, Chi Ho
CHENG, Chun Fai
CHENG, Chun Wing
CHENG, Hiu Wa
CHENG, Ho Sing
CHENG, Ho Yin
CHENG, Ka Ho Michael
CHENG, Lok Yi
CHENG, Pui Pui
CHENG, Wai Yan
CHENG, Wei Fen
CHENG, Wing Chi
CHEUNG, Chak Ming
CHEUNG, Ching Yin
CHEUNG, Cho Yu
CHEUNG, Choi Hing
CHEUNG, Chun Ho
CHEUNG, Frederick Lok Wang
CHEUNG, Hing Lung
CHEUNG, Hiu Kwan
CHEUNG, King Siu
CHEUNG, Man Hin
CHEUNG, Man Wai
CHEUNG, Siu Ming
CHEUNG, Siu Ting
CHEUNG, Wai Ling Patricia
CHEUNG, Ying Ki
CHIU, Chi Ho
CHIU, Ming Hei
CHOI, Chi Kin
CHOI, Chun Kit
CHOI, Kwan Ling
CHOI, Ngan Ni
CHOI, Pui Hang
CHOI, Tsz Fai
CHONG, Chung Yi
CHONG, Ka Chi
CHONG, Kai Tik
CHONG, Tsz Kin
CHONG, Yuk Kwan
CHOW, Tsz Yan
CHOY, Hei Wan
CHU, Ching Man Natalie
CHU, Ka Chun
CHU, Ka Ki
CHU, Ka Yin
CHU, Lok Yan
CHUI, Chung Wo
CHUI, Ho Nam
CHUI, Tsz Wai
CHUI, Yee Ching
CHUNG, Cheuk Lam
CHUNG, Cheuk Pong Nelson
CHUNG, Hoi Yan
CHUNG, Kin Tao
CHUNG, Wai Ching
DENG, Xiao
DIAO, Liping
DING, Jieyun
DING, Ying
DONG, Lili
FAN, Nga Chi Gigi
FAN, Runmin
FENG, Birong
FENG, Xinhui
FONG, Ho Ying
FONG, Kai Leung
FUNG, Cheuk Bun
FUNG, Chun Yan
FUNG, Dor Ka
FUNG, King Yeung
FUNG, Pui Lam
FUNG, Tsz Yau
FUNG, Wing Ki
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GUAN, Du
GUO, Suiheng
GUO, Zixuan
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HUANG, Wenbin
HUANG, Wenxiu
HUANG, Zhizhen
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KO, Sin Chi
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LAU, Tsun Wai
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LAU, Wai Sum
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LEUNG, Joanne
LEUNG, Ka Kit
LEUNG, Lai Yan
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YIN, Lida
YIP, Chai Wai
YIP, Ching Yi
YIP, Kim Fei
YIP, Sze Kei, Yedda
Yiu, In Ning
YIU, King Hei
YU, Cheuk Hang
YU, Ching Hong
YU, Hoi Yan
YU, Ka Ho
YU, Kam Yeung
YU, Mingyang
YU, Wai Yin
YUEN, Chi Ho
YUEN, Hiu Ching
YUEN, Hoi Ching
YUEN, Tsz Tsing
YUK, Yiu Chi
YUNG, Chun Yan
YUNG, Hiu Hong
YUNG, Kin Hang
ZENG, Xiongwei
ZHANG, Congzhi
ZHANG, Jiawen
ZHANG, Xin
ZHANG, Xinyao
ZHANG, Xinyue
ZHANG, Yi
ZHANG, Yiqian
ZHANG, Zhiqi
ZHAO, Jiaqi
ZHENG, Bixin
ZHOU, Qing
ZHOU, Xiaotong
ZHOU, Yaotang
ZHU, Xiongbin
ZHUO, Delin

Congratulations to the graduates of the Hong Kong Institute of CPAs' Qualification Programme. Under the guidance of experienced CPAs, these graduates are on their way to joining the world's most prestigious accounting professionals. And they've taken the first big step towards becoming one of Hong Kong's success ingredients.

A review of the impairment of financial instruments

A summary of the Institute's response to the IASB Request for Information on the impairment of IFRS 9 *Financial Instruments*

International Financial Reporting Standard (IFRS) 9 *Financial Instruments* sets out the requirements for recognition of expected credit losses (ECL) for all financial instruments that are subject to impairment accounting. The impairment requirements in IFRS 9 were developed in response to the global financial crisis and stakeholders' calls for more timely recognition of loan losses and a forward-looking impairment model. The ECL model in IFRS 9 replaced the previous "incurred credit loss" model in International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement*, which only allowed credit losses to be recognized when a loss event occurred. Under the ECL model, companies are required to recognize and update ECL throughout the life of a financial asset, factoring in the losses they expect based on relevant available information.

The International Accounting Standards Board (IASB) is currently undertaking a Post-implementation Review (PIR) of the impairment requirements in IFRS 9. As part of this review, the IASB has published a Request for Information (RFI) to seek feedback from stakeholders on specific areas of the impairment requirements and the related disclosures. In September, the Institute's Standard Setting Department responded to the RFI. This article highlights our primary comments outlined in our submission. The full response is available on our website.

Overall, we consider that the use of the ECL model in IFRS 9 results in more timely recognition of credit losses and provides better information about an entity's ECL as compared to the incurred loss model in IAS 39. Nevertheless, we have identified the following application issues that warrant the IASB's further consideration.

Meaning of "credit loss"

In our submission to the IFRS Interpretations Committee tentative agenda decision *Lessor Forgiveness of Lease Payments* (IFRS 9 and IFRS 16), we expressed concerns over the unclear meaning of "credit loss" for the purpose of ECL assessment. On the one hand, Appendix A of IFRS 9 defines a credit loss as "**all** cash shortfalls", which may imply that an entity should include all cash shortfalls in ECL measurement irrespective whether they are due to credit-related reasons. On the other hand, the objective and underlying concept of the ECL model (e.g. significant increase in credit risk, risk of default and credit impaired) seem to imply that the measurement of ECL should only be driven by credit-related factors.

Some respondents considered that the IFRS Interpretations Committee may have clarified this issue in its Agenda Decision *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)* by concluding that the lessor, who voluntarily forgives certain lease payments due by the lessee, should include the anticipation of forgiving lease payments due into the measurement of ECL of the operating lease receivable to reflect "all cash shortfalls". However, other respondents considered that the Agenda Decision has created further uncertainty about the boundaries of credit risk.

We considered that the meaning of "credit loss" is not only fundamental to the ECL assessment but is also closely related to the issue of the boundaries between the requirements on modification of financial assets and ECL (see below). In light of the ongoing concern in the market, we recommend that the IASB undertake proper standard-setting activities to clarify the meaning of "credit loss" in IFRS 9, i.e. whether it is based on an assessment of "all cash shortfalls" or "shortfalls as a result of an inability to pay". We also recommend the IASB conduct a thorough review of IFRS 9 to ensure that the related concepts and terminologies applied in the ECL measurement align with the clarified meaning of "credit loss" within the context of IFRS 9.

Interaction of the ECL requirements with the requirements on modification and derecognition in IFRS 9

IFRS 9 does not contain clear guidance on how the requirements for modification

Overview of the impairment requirements in IFRS 9

	Increase in credit risk since initial recognition		
	Stage 1 "Performing"	**Stage 2** "Underperforming"	**Stage 3** "Non-performing"/ "Credit-impaired"
Impairment	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest revenue	Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on amortized cost

Source: *IASB RFI on PIR of IFR 9 – Impairment*

and ECL interact with each other. Specifically, following a modification that does not result in derecognition, it is unclear how an entity should account for the ECL and the effect of the modification. Questions arise as to whether certain losses should be treated as impairment losses, write-offs, or modification losses. The uncertainty about the boundaries between the requirements for modification and ECL is further exacerbated by the unclear meaning of "credit loss" as mentioned earlier ("all cash shortfalls" or "shortfalls as a result of an inability to pay").

In our submission to the IASB on *PIR of IFRS 9 – Classification and Measurement*, we expressed significant concerns regarding the modification requirements. Due to insufficient guidance in IFRS 9, different entities have developed varying accounting policies to assess whether a modification results in derecognition. The lack of clarity affects whether a modification would lead to derecognition of the original financial asset and recognition of a new one, resulting in a reset of initial credit risk and hence stage classification for ECL measurement. This is in contrast to cases where the modification does not result in derecognition, and the modified financial assets would be classified as stage 2 if the credit risk has increased significantly.

We note that the IASB has added a standard-setting project to its research pipeline on *Amortized Cost Measurement*, which will consider the modification of financial instruments. In this regard, we strongly recommend the IASB include the interaction of the modification and ECL requirements within the scope of that project and commence the project as soon as practicable.

Accounting for financial guarantee contracts

Financial guarantee contracts (FGCs) are widely used financial instruments in Mainland China and Hong Kong. However, we noted several application issues relating to the accounting for FGCs and recommend that the IASB provide guidance or clarification on how the relevant requirements in IFRS 9 should be applied. These issues include:

- From the holder's perspective: There is a potential inconsistency between IFRS 9: B5.5.55 and the discussions by the IFRS Transition Resource Group for Impairment of Financial Instruments in terms of what "integral" means when assessing whether cash flows from FGCs are integral to the contractual terms for ECL measurement. This raises concerns on how to appropriately perform the integral assessment, particularly when the FGC is not mentioned in the contractual terms or the FGC is obtained for a revolving pool of receivables.
- From the issuer's perspective: IFRS 9 does not provide application guidance on how the extant requirements for subsequent measurement in IFRS 9:4.2.1(c) are applied to FGCs with premiums received over time, leading to diversity in practice. In addition, questions have also been raised as to how the two amounts recognized under IFRS 9:4.2.1(c), namely the amortization amount determined based on IFRS 15 and the ECL allowance, interact with each other and hence how they should be presented in the statement of profit or loss.

*This article was contributed by **Carrie Lau** and **Kennis Lee**, 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.*

Addressing the talent shortage in accounting

An overview of the Institute's study which identified core messages to attract talent and approaches for talent retention

Talent shortage has become a prominent issue in various industries, including the accounting profession, despite the steady number of university graduates with accounting degrees. The Institute believes that this shortage has arisen partially due to wide spread misconceptions about the profession among university students, such as the belief that technology will replace accountants, that accounting jobs solely involve working with numbers and are dull, and that the value of pursuing the Qualification Programme (QP) lies mainly in obtaining an audit license.

To address this and enhance talent retention, the Institute has conducted research and studies to formulate a set of materials that communicate the employee value proposition to potential candidates to encourage them to join the profession.

Core messages to attract talent

Professional accountants are irreplaceable by technology

Those not privy to the nuances of the industry often perceive technology as a threat to the accounting profession, fearing that automation and artificial intelligence will eliminate accounting jobs. However, this perception stems from a misunderstanding of the accountant's role. Employers should emphasize that while technology can have a profound impact on the profession, professional accountants possess higher-order skills like professional judgement, critical thinking, communication, and ethics that are difficult to replace. By making this clarification, the younger generation can gain confidence in the future prospects of the profession.

Professional accountants play critical and diverse roles in the business world

The perception that accounting is solely focused on managing financial information creates the misconception that it is dull and unimpactful. Employers should highlight that professional accountants are business advisors with unique capabilities to analyze financial information and provide valuable advice for decision-making across industries. Their roles extend beyond number crunching and encompass financial accounting, management accounting, auditing, taxation, financial analysis, forensic accounting, and more. Emphasizing the impact and variety of functions performed by accountants can inspire the younger generation to join the profession.

Value proposition of the QP

Many believe that the QP and CPA designation primarily benefit those pursuing audit careers in Hong Kong. Employers should emphasize the broader benefits of the QP, such as the extensive knowledge and skills acquired through the programme, which are applicable across various accounting roles and industries. Highlighting the global recognition of the qualification and the global opportunities it provides can attract talent interested in international mobility and diverse career paths.

Approaches for talent retention

Establishing purpose for the work

Employers should connect employees' work to the larger organizational goals and societal impact to foster a sense of purpose. Clearly communicate how their contributions as accountants positively influence businesses, economies, and communities. Providing opportunities for employees to engage in meaningful projects and community initiatives can enhance their sense of purpose and job satisfaction.

Health and wellness

Promote work-life balance and prioritize employee well-being. Implement policies and initiatives that support physical and mental health, such as wellness programmes, and access to counselling services. Encourage employees to take breaks, vacations, and engage in activities that promote their overall well-being.

Collaborative work culture

Create a supportive and inclusive work environment that values collaboration, teamwork, and open communication. Encourage knowledge sharing, mentorship programmes, and cross-functional collaboration to foster professional growth and development. Recognize and appreciate diverse perspectives and contributions from employees at all levels.

Transparent career paths

Establish clear and transparent career progression frameworks within the organization. Provide regular feedback and performance evaluations to help employees understand their strengths, areas for improvement, and potential growth opportunities. Offer training and development programmes to enhance employees' skills and competencies.

Flexible work arrangements

Recognize and accommodate employees' individual needs by providing flexible work arrangements, such as remote work options, flexible hours, compressed workweeks, or job-sharing opportunities. This flexibility helps employees balance their personal and professional responsibilities, leading to increased job satisfaction and retention.

Staff recognition programmes

Develop and implement employee recognition programmes to acknowledge and reward employees' contributions and achievements. Recognize outstanding performance, innovative ideas, and exceptional teamwork. Celebrate milestones and provide opportunities for employees to showcase their accomplishments within the organization.

To better attract and retain talent in the profession, employers should deliver consistent core messages that emphasize the indispensability of professional accountants, the diverse roles they play, and the value proposition of the QP. Additionally, implementing approaches for flexible talent retention can contribute to attracting and retaining talent in accounting firms and companies. The Institute is developing an employment toolkit to support these efforts.

This article was contributed by the Education and Training Department of the Institute.

Hong Kong's family office regime poised to draw Asia's wealth

A look at whether, and to what extent, Hong Kong's newly created family office regime makes the city a highly competitive family office location

The growth in family offices (FOs) among Asia's wealthy has been phenomenal in recent years. Many jurisdictions hope to attract FOs to their territory. In May, Hong Kong enacted a new concessionary tax regime for family-owned investment holding vehicles (FIHVs) managed by a single FO. The tax concession applies retrospectively from the 2022/23 assessment year (from 1 April 2022).

The key question for a jurisdiction trying to attract more FOs is, how do you come up with a regime that would entice wealthy families to set up shop? An attractive regime would offer most, if not all, of five competitive advantages:

- Favourable tax regime;
- Low threshold for qualification;
- Minimal government involvement with the initial approval and annual maintenance procedures;
- Conducive immigration policy; and
- A free economy with world-class capital markets.

What is a family office?

An FO is a company that provides prescribed services to prescribed family members. The services generally encompass:

- Asset management;
- Procurement of professional services;
- Education support;
- Immigration assistance;
- Lifestyle and concierge services; and
- Assisting with philanthropic activity.

An FO may serve a single family or multiple unrelated families. Hong Kong's FO tax concession covers only investment-holding vehicles managed by FOs that serve a single family via a single-family office (SFO).

A typical SFO structure comprises one or more FIHVs that hold the family's wealth. Also, there is often a separate entity that serves as the SFO that manages the FIHV's assets.

Advantages of Hong Kong as a family office hub

Tax regime

Hong Kong enjoys the reputation as one of the most tax-friendly jurisdictions in Asia. For example, its standard individual tax rate is 15 percent and only applicable to salaries, business profits, and property rental income. Dividends, most interest income, and capital gains received by individuals are tax-free.

However, if financial assets are held in an entity, it is not clear if it would qualify for tax-free treatment on capital gains as in general, a corporation or partnership is considered to have a profit-seeking motive and to carry out profit-making activities. For example, if a wealthy non-resident of Hong Kong established an entity to trade or hold stocks and securities through a private bank in Hong Kong, it is possible that the entity would be considered to carry on a business in Hong Kong (through the private bank in Hong Kong) and derive Hong Kong-sourced profits.

Because this structure is not considered foreign investor-friendly or conducive to enhancing Hong Kong's international financial centre position, in 2006 the government introduced the offshore fund exemption regime (OFER) with amendments made in 2015, which exempts non-resident investment funds from Hong Kong taxation, provided specific conditions are met. However, there is a set of anti-round-tripping rules that would preclude the application of the tax exemption to a more-than-30-percent Hong Kong resident owner.

If the non-resident moved to Hong Kong and became a Hong Kong resident, the OFER exemption would be forfeited. Hong Kong therefore introduced the FO regime under which the FIHV's investment income, even if derived from Hong Kong, would not be taxable in Hong Kong regardless of whether the beneficial owners are Hong Kong residents.

Qualification

Under the new FO regime, an FIHV or a family-owned special purpose entity, can enjoy a 0 percent tax rate for profits derived from qualifying transactions in specified assets (for example, shares, debentures, etc.) and transactions incidental to them (subject to a 5 percent threshold). To be eligible for the tax-free treatment, an FO structure would need to meet certain requirements regarding the FIHV and SFO.

Legal form: An eligible FIHV could be a body of persons or a legal arrangement but not limited to a corporation, partnership, or trust to allow more FIHVs to apply for the tax concession.

Broad definition of family members: Both the eligible FIHV and eligible SFO should be at least 95 percent held (directly or indirectly) by members of a single family. The definition of a family member is broad and accommodating. It can even cover a divorced spouse and the spouse's connected persons for two years from the year of divorce so that the FIHV/SFO would not be immediately disqualified when the divorce is finalized.

Charity as beneficiaries: An approved taxexempt charitable entity under the Hong Kong Inland Revenue Ordinance is allowed to hold up to 25 percent of beneficial interest (direct or indirect) in an FIHV and still be eligible for the tax concession.

Service scope of SFOs: An eligible FIHV must be managed by an eligible SFO. Hong Kong's FO regime is flexible enough that as long as a family member or FIHV is considered a recipient of SFO's services and the service income received by the SFO is chargeable to profits tax, the services will be qualifying, unless the SFO receives more than 25 percent of its assessable profits from non-family members or non-FIHVs.

Normal management or control: The FIHV and SFO are required to be "normally managed or controlled" in Hong Kong. The requirement is fulfilled if either the management of daily operations or the highest level of control of the FIHV and SFO are in Hong Kong. The use of the "normally" language (which is likely a first under Hong Kong law) reflects the extent to which the Hong Kong government intends to make the regime as friendly as possible. It provides flexibility so that the family may have other significant SFOs in other jurisdictions. It would also be convenient and practical for frequent-travelling executives as the employees of the Hong Kong SFO would not necessarily have to be physically in Hong Kong most of the time.

Minimum asset threshold: The FO regime in Hong Kong has a relatively low minimum threshold. Assets managed by the SFO for the FIHV or multiple FIHVs must be at least HK$240 million in aggregate. There is no local investment requirement.

Substantial activities requirement: The local substance requirements in Hong Kong are also relatively simple and straightforward: two full-time employees (Hong Kong residents or non-residents who are in Hong Kong on work visa) and local operating expenditure of HK$2 million. There is no specific requirement on the qualification of the employees.

No license requirement: In general, an SFO is not required to apply for a license under the Securities and Futures Ordinance if it does not carry on the business of a regulated activity, for example, managing third parties' money.

Government approvals

The Hong Kong government does not require qualifying FIHVs and SFOs to obtain pre-approvals to become eligible for the FO regime. A qualifying FIHV only needs to file a tax form to inform the Inland Revenue Department (IRD) that it elects to be eligible for the FO regime. A more discerning FO may consider applying for an advanced ruling from the IRD over its eligibility to obtain certainty.

Talent and immigration policy

Hong Kong's immigration system has a straightforward path to permanent residence – seven years of residence in Hong Kong.

The Hong Kong government recently expanded its immigration programmes to attract qualified individuals. The FO regime, which requires at least two full-time employees to work for an SFO, does not mandate that they be Hong Kong permanent residents. Talents from outside Hong Kong would be welcome to fill these SFO vacancies under one of these immigration programmes.

Hong Kong has also instituted a number of programmes to nurture and develop talent for the private wealth industry that would further expand the talent pool available for FIHVs/SFOs that choose to set up in Hong Kong.

Hong Kong's capital markets

Hong Kong has the third-biggest capital market in Asia in terms of capitalization (following Mainland China and Japan). While there is no requirement for an FIHV to invest in any local Hong Kong stocks and securities, Hong Kong nevertheless provides a wide array of investment opportunities and choices to FIHVs and SFOs that may be unmatched by other capital markets in Asia. Given that the Hong Kong dollar is pegged to the U.S. dollar and backed by Hong Kong's enormous foreign reserves, Hong Kong provides a stable investment environment that allows the free movement of capital. Hong Kong's core values in the rule of law and its vast pool of international professionals set Hong Kong apart as one of the most desirable places in which to conduct financial transactions and make investments. Finally, its geographic location (and being part of China) enables Hong Kong to be in the unrivaled, enviable position to facilitate cross-border financial transactions and investments with Mainland China.

Conclusion

As wealthy families become more global in their investment strategies and lifestyle preferences, Hong Kong is uniquely positioned as an international financial centre that can provide families with both vast global investment opportunities and the ease with which to fund and manage their international lifestyles. The new FO regime is widely perceived to be a favourable and necessary framework within which global FOs can develop and thrive. Most would agree that Hong Kong's new regime has checked the five boxes outlined earlier, making Hong Kong a highly competitive and preferred FO location.

Moreover, judging from the amount of inquiries from potential clients, the business and professional community is optimistic that many of the world's families, in particular those from Asia, will choose Hong Kong to set up their SFOs. The new regime will further reinforce and accelerate a virtuous cycle that is already in motion: more financial and human capital inflows into Hong Kong and more economic benefits to Hong Kong's economy that in turn magnify the benefits of the city as the undisputable FO hub in Asia and beyond.

*This is an abbreviated version of the article, 'Hong Kong's Family Office Regime Poised to Draw Asia's Wealth,' written by **Patrick Yip**, Vice Chair and International Tax Partner, and **Doris Chik**, Tax Partner of Deloitte China, published by Tax Notes International (TNI) on 18 September 2023. It is republished here with the consent of TNI.*

TECHNICAL NEWS

The latest standards and technical development highlights

Financial reporting

Invitation to comment
The Institute is seeking comments on the International Accounting Standards Board (IASB) Exposure Draft *Annual Improvements to IFRS Accounting Standards – Volume 11* by 10 November.

Institute submission
The Institute has submitted its comment letter on the IASB Request for Information on *Post-Implementation Review of International Financial Reporting Standards (IFRS) 9 Financial Instruments – Impairment*.

The Institute's Financial Reporting Standards Committee meeting minutes
Minutes of the July 2023 meeting is now available.

IASB September 2023 podcast and update
The IASB podcast, with its vice-chair and executive technical director highlighting the projects discussed during its September meeting, and a summary of the September meeting, are now available.

IFRS Interpretations Committee September 2023 Update
The IFRS Interpretations Committee Update provides a summary of discussions at its September meeting.

IASB to explore ways to improve reporting of climate-related and other uncertainties in the financial statements
The IASB has decided to explore targeted actions to improve the reporting of climate-related and other uncertainties in the financial statements. The possible actions include development of educational materials, illustrative examples and targeted amendments to IFRS Accounting Standards to improve application of existing requirements.

Given the pace of change in this area, the IASB will also continue to monitor developments to determine whether to take further action. In progressing this work, IASB technical staff will continue to work closely with International Sustainability Standards Board (ISSB) technical staff to facilitate connections in the boards' work.

IASB sets out accounting requirements for when a currency is not exchangeable
In response to stakeholders' feedback and concerns about diversity in practice in accounting for a lack of exchangeability between currencies, the IASB has issued amendments to International Accounting Standard (IAS) 21 *The Effects of Changes in Foreign Exchange Rates*. The amendments will require companies to provide more useful information in their financial statements when a currency cannot be exchanged into another currency.

IASB technical staff have produced a webcast to explain how the new requirements aim to address situations in which a currency is not exchangeable into another currency.

Auditing and assurance

Institute submission
The Institute has submitted its comment letter on the International Auditing and Assurance Standards Board (IAASB) Proposed International Standard on Auditing (ISA) 570 (Revised 202X) *Going Concern* and Proposed Conforming and Consequential Amendments to Other ISAs.

The State of Play: Beyond the G20
This study by the International Federation of Accountants (IFAC) expands the IFAC's sustainability disclosure and assurance data to 20 additional jurisdictions beyond the G20 previously reported on. The results show that both sustainability disclosure and assurance are improving in those jurisdictions.

Assurance for new and veteran investors, part of the IFAC and IOSCO world investor week series
The IFAC and the International Organization of Securities Commissions (IOSCO) have created new videos which aim to provide investors with a better understanding of assurance, enabling them to better understand the financial well-being of potential investments, and fostering trust in the accounting profession.

- What is Assurance? discusses how professional accountants evaluate the reliability of information, and how assurance enhances trust and confidence.
- What is Sustainability Assurance? discusses the important role professional accountants play in understanding the accuracy of non-financial information, with a particular focus on sustainability matters.

Determining the group auditor's responsibilities: Implementation guide
This guide by the Chartered Professional Accountants of Canada includes:

- A summary of requirements for audits of group financial statements.
- Key considerations for effective two-way communication between the group auditor and component auditors.
- Sample letters and a sample memorandum of work performed.
- Practical considerations for complying with the requirements.

Ethics

Pressure to breach the fundamental principles
It is important for professional accountants to uphold the fundamental principles of the Code of Ethics for Professional Accountants and remain vigilant against workplace pressures that may lead to breaches. Read the poster produced by the Institute's Ethics

Committee to learn about potential scenarios where breaches might occur, and the appropriate actions against pressures to breach the fundamental principles.

The Institute's Ethics Committee meeting
Minutes of the 257th meeting is now available.

IESBA Handbook 2023 edition
The International Ethics Standards Board for Accountants (IESBA) released the 2023 Handbook of the *International Code of Ethics for Professional Accountants (including International Independence Standards)*(IESBA Code). It replaces the 2022 edition and incorporates the following revisions:

- Revisions relating to the definition of engagement team and group audits.
- The upcoming expiry of the "jurisdictional provision" addressing long association of personnel with an audit client, which will be no longer available for audits of financial statements for periods beginning on or after 15 December 2023.

The handbook also contains the following revisions to the IESBA Code which will become effective in December 2024:

- Revisions to the definition of a public interest entity.
- Changes to the definitions of "audit client" and "group audit client" in the glossary arising from the approved revisions to the definitions of listed entity and public interest entity.
- The technology-related revisions.

Sustainability

Institute submission
The Institute has submitted its comment letter on the ISSB's Request for Information *Consultation on Agenda Priorities*.

Sue Lloyd delivers keynote speech on the current agenda of the ISSB and cooperation with EU institutions
Sue Lloyd, Vice-Chair of the ISSB, delivered a keynote address on the current agenda of ISSB and the cooperation between the ISSB and the European Union (EU) institutions at the Association of German Banks Courtyard Reception on 30 August.

Jean-Paul Servais delivers keynote speech on recent achievements and perspectives of IOSCO
Jean-Paul Servais, Chair of the IOSCO Board, delivered a keynote speech on IOSCO's recent achievements and perspectives at the Eurofi 2023 Financial Forum on 13 September.

ISSB September 2023 podcast and update
The ISSB podcast, with its chair and vice-chair highlighting the latest developments from the ISSB, and a summary of the September meeting, are now available.

ISSB congratulates TNFD on finalized recommendations
During New York Climate Week 2023, the Task Force on Nature-related Financial Disclosures (TNFD) published its recommendations to help companies communicate nature-related risks and opportunities to investors and other stakeholders.

Consistent with the ISSB's approach of building upon the work of market-led initiatives grounded in current-best practice and thinking, the ISSB will look to the TNFD recommendations – where it relates to meeting the information needs of investors – in its future work. The ISSB is also working on educational materials for disclosing the nature and social aspects of climate-related risks and opportunities. Read the news for details.

Corporate finance

SFC amends takeovers and share buy-backs codes
On 21 September, the Securities and Futures Commission (SFC) published consultation conclusions on its proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs (codes), which was gazetted on 29 September and then took effect immediately.

The amendments mainly codify existing practices of the Takeovers Executive and clarify the codes where necessary. Changes include revising the definitions of important terms, streamlining processes to enhance efficiency, and introducing green initiatives to reduce the carbon footprint of codes documents. Please refer to the press release for details.

Taxation

Institute issues submission on proposals regarding the introduction of a patent box tax incentive in Hong Kong
The Institute issued a submission on 29 September, in response to the government's consultation paper on the introduction of a patent box tax incentive for Hong Kong-sourced intellectual property (IP) income. To encourage more research and development and IP trading activities in Hong Kong, the consultation paper proposes that eligible IP income derived from eligible IP assets that are patents or patent-like be taxed at a concessionary tax rate in Hong Kong.

The Institute's submission expresses support for the proposals, while highlighting the need for further clarification and guidance. Furthermore, the government is encouraged to take a more holistic view, relax the criteria for some of the existing incentives for IP and research and development, and provide a more supportive ecosystem extending beyond tax incentives, so as to foster the growth of the innovation and technology sector, as well as strengthen Hong Kong's position as a global hub for technology and IP development.

Legislation and other initiatives

Anti-money laundering (AML) notices
For the current lists of terrorists, terrorist associates and relevant persons/entities under United Nations sanctions, members should refer regularly to the Institute's AML webpage.

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

ARTHUR LAI

Senior Consultant
at FTI Consulting


Photography by Anthony Tung

Arthur Lai is a Senior Consultant in the Corporate Finance & Restructuring team at FTI Consulting. He talks to *A Plus* about how he's learning to become a successful, future-ready restructuring advisor, and why he is optimistic about the future of his specialism.

What are your current role and responsibilities? How is the work going so far?

I am a Senior Consultant in the Corporate Finance & Restructuring team at FTI Consulting, and we have a diverse portfolio of services for clients across Asia Pacific. Our team specializes in providing financial restructuring services to multinational corporations and assisting lenders, private equities and funds in corporate recovery assignments. We have a strong track record of delivering innovative and market leading insolvency solutions. Our team is also highly engaged in the distressed merger and acquisition landscape, with a dedicated capital advisory practice that has successfully facilitated some of the most complex transactions in the market. Since the implementation of China's "Three Red Lines" policy, restricting borrowing by property developers, we have supported numerous financial institutions in assessing their credit exposure and guided them in making the right commercial decisions. I am currently in my fifth year working in the field of restructuring, and the experience has been incredibly fulfilling. As a senior consultant, my responsibilities involve leading and managing projects at the operational level, while being supervised by more senior colleagues. Collaboration plays a significant role in my work, as I closely collaborate with multiple junior team members to meet the diverse needs of each project. Additionally, a significant aspect of my role involves addressing specialized financial matters and finding solutions for complex legal issues, and I also frequently engage directly with clients and participate in negotiations with external parties.

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

Stakeholder management is the most demanding aspect of my job. In a typical restructuring process, numerous parties with individual agendas are involved, making bringing together the parties to a common goal a complex task. Succeeding as a restructuring advisor requires a discerning mindset and confidence in your interpersonal skills. Understanding the ever-changing power dynamics among stakeholders and effectively prioritizing their needs are crucial. This challenge also presents the most gratifying aspect of my role. Guiding restructuring negotiations to successful outcomes brings a great sense of achievement. A well-executed restructuring offers constructive solutions to financial difficulties and delivers favourable outcomes for the majority of stakeholders involved. When contributing significant value to the credit ecosystem, the impact you make is tangible and often public.

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

I have received great support and guidance from my superiors regarding engagement matters, and they consistently assist me in developing a strategic approach. They value my input on long-term goals and involve me in decision-making processes. This hands-on experience has contributed to my personal growth, making me more mature and reliable. My superiors also possess excellent negotiation skills, which is key particularly in the restructuring and insolvency industry where cooperation with potentially adversarial third parties is common. They have mastered the art of aligning competing interests and achieving "win-win" solutions with stakeholders.

Where do you see yourself in the next five to 10 years in your career?

I'm optimistic about the future of the restructuring industry and intend to continue focusing on specializing in this field. As such, I see myself taking on more senior positions in the sector over the next five to 10 years. Since the onset of the COVID-19 pandemic, we have witnessed a worldwide economic instability. Currently, the world is in a phase of recovery, necessitating collaboration between businesses and financiers to revive even the historically strongest performing sectors of the economy. The Asia region is expected to offer substantial growth prospects, and I am actively preparing myself by participating in the Institute's Professional Diploma in Insolvency programme. The programme is jointly led by highly skilled insolvency practitioners in Hong Kong, offering candidates with the opportunity to gain valuable insights from their extensive practice experience. The programme is an excellent means of acquainting yourself with industry-leading techniques, as you receive expert guidance on case laws and precedents throughout the duration of the course. I highly recommend this qualification to anyone interested.

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

Participating in the QP has significantly enhanced my problem-solving mindset, instilling greater confidence in my ability to navigate commercial challenges. Moreover, I consider financial literacy to be a crucial skill for business students, and the QP has laid a strong foundation in this area. The qualification is highly practical, with the majority of what you learn directly applicable to real-world scenarios, enabling you to excel in your professional endeavours.

CPA Congress panel discussion: Transitioning Hong Kong into an ESG and green finance hub

The archived webinar of the Institute's 50th anniversary flagship event CPA Congress, which featured a panel discussion on Hong Kong's role in ESG and green finance, is now available for subscription for a limited time

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The Hong Kong government's desire is for the city to become an environmental, social and governance, (ESG) and international green finance hub. The government also wants Hong Kong to be a green technology centre. It is important to first clarify the relevant definitions – what are ESG and green finance about, and why have they become important to the business world in recent years?

The focus is on the word "green", which is related to the natural environment. The planet has run into problems with years of environmental damage, such as high levels of pollution, including greenhouse gas emissions that cause global warming, as well as massive biodiversity loss. The extreme weather events experienced all over the world this year is testament to a changing climate.

Hence, governments through the multilateral Paris Agreement 2015, are dealing with climate change, setting timelines and targets to climate mitigation, as well as focusing on adaptation. Climate action requires massive green projects all over the world, which need to be financed. The idea of green finance is to use various means to direct capital to green projects.

Projects to decarbonize and strengthen infrastructure are costly. One of the tools governments are using is to raise money from the capital market by means of raising green bonds for well-defined green projects, such as to build renewable energy plants, improve energy efficiency, expand rail systems, and adopt new fuels for certain types of vehicles.

Hong Kong aims to be a capital raising centre for itself, for the nation, the Asia-Pacific region, and along the Belt and Road economies. It has the capability to do this because it has a high concentration of professional and financial services talent that can package projects and to provide services such as standards setting, and quality assurance. However, professionals do need to learn the basics about the environment.

It helps a lot to improve capacity and capability of the talent pool when there are projects in Hong Kong. Even though the city is small, by honing one's green projects and finance skills here, they can be applied in external markets.

ESG is one of the green finance skill sets. While disclosing corporate ESG information could be seen as compliance because regulators are demanding it, the information that companies collect, compile and consider should give them deeper insights into the wider impacts of their businesses. As governments continue to tighten ESG standards, companies can use their new insights for both risk management and identifying opportunities. Companies that only look at ESG through a compliance lens will short-change themselves by not reflecting on the future of their businesses.

Alongside this is the digital revolution. It is well-accepted that data offers insights but the handling of large amounts of data requires investment in digitalization of one's management system. This has brought about what data is available and what is not and why.

To consider decarbonization, such as achieving energy saving, it is critical to have information about where energy is being used. In Hong Kong, most of our energy is used in buildings, but the government does not have detailed data because the data belongs to private companies that provide energy. This is widely acknowledged as a highly undesirable situation because the government cannot make good policy decisions without fulsome data, and the data is unavailable to others who wish to create new energy-saving businesses.

As Hong Kong also aspires to be a green technology hub, there is a need to consider what data the energy companies should disclose that would not compromise the privacy of specific householders or corporate entities. The vitality of Hong Kong as a green finance-green technology and ESG hub requires the government and private sector to look forward rather than keep to past practices.

About the archived webinar

With the theme "Creating a Pathway to Advancement: Empowering Enterprises for the Future", the CPA Congress – the flagship event of the Institute's 50th anniversary – was held on 15 July. The archived webinar is available for subscription for a limited time now.

Featuring world-class guests and speakers, the event featured four panel discussions. The first panel, titled "Transitioning Hong Kong into an ESG and Green Finance Hub," examines how ESG can help corporate leaders and professionals to achieve their business goals with the adoption of professional protocols and ESG financial products.

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