

Driving business success

Issue 8 / Volume 14 / August 2018

AI: RESHAPING BUSINESS

How artificial
intelligence
and robotics
are changing
companies' plans
for the future



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

Plus:

CPAs for NGOs

How CPAs can help build trust
in Hong Kong's charities

Profile

Teresa Ko, International
Financial Reporting Standards
Foundation Trustee

CPAs who rock

Rock band The Opinion on
balancing work and music



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The deadline for early-bird is 21 September

IT Conference 2018

Impact of FinTech and Artificial Intelligence to the Accountancy Profession

Guest of honour



Mr. Peter YAN

Chief Executive Officer
Hong Kong Cyberport Management Co. Ltd

Keynote speakers



Mr. Herbert CHIA

Venture Partner
Sequoia Capital China Fund



Mr. Steven LEE

Founder & CEO
MoneySQ.com

Other speakers



Ms. Sarah FOO

Partner Consultant, Hong Kong
Xero



Mr. Jeff LAM

Managing Director, Greater China
SAP Concur



Mr. Karl-Michael MOUANTRI

Managing Director
CCH® Tagetik Asia Pacific

Date: Saturday, 20 October 2018

Time: 9 a.m. – 1 p.m.

Venue: Ballroom, Ritz Carlton, International Commerce Centre (ICC), 1 Austin Road West, Hong Kong

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(For enrolment)

“We are seeking your views on *A Plus*, and conducting a short readership survey to determine what you enjoy reading and areas of the magazine you think could be improved. I hope you take the time to complete the survey.”



Dear members,

August is a quiet month for us, with no Council meeting and many people off on holidays, which means it is a well-appreciated break. The quiet month gives us the time to relax, diet before the extravagant dinners begin, and prepare for the (gala) business end of the year. As, from September onwards, organizations including professional bodies and university groups begin to host numerous events and activities to keep the profession busy and well-fed.

Entries for the 19th Best Corporate Governance Awards closed in the middle of the month, and over 70 entries were received. The review panel is now going through these entries and the annual reports from other companies selected by the organizing committee. I look forward to receiving the shortlist and chairing the Judging Panel in October and engaging in debate with my fellow panellists. Good corporate governance is vital for Hong Kong's long term competitiveness.

Members interested in learning more about the importance of good corporate governance should attend the seminars the Institute organizes, including on 10 September on the

importance of good sustainability practices and emerging trends in sustainability and social reporting.

The 2018 PAIB Conference with the theme “the day after tomorrow: A reality check for accountants today,” will take place on 8 September at the Institute's training centre. I look forward to hearing from Guest of Honour, Laurence Li, Chairman of the Financial Services Development Council and others on the key challenges professional accountants in business face and the future opportunities ahead for this side of our profession. Ensuring we are suitably skilled and knowledgeable of important developments in our fields is vital for our continuing professional success in the age of accounting plus and attending conferences such as this, helps us to keep up-to-date with the latest professional developments.

If you're more interested in learning about the latest technological developments then you should attend the upcoming IT Conference 2018 to be held on 20 October at the Ritz-Carlton where speakers will discuss how FinTech and artificial intelligence are changing the landscape of

the accountancy profession.

Topics to be covered include preparing the office of CFO for future innovative technologies, how to build a data-responsive organization, and how blockchain revolutionizes small- and medium-sized enterprise financing. Early-bird enrolment closes on 21 September, so don't miss out.

We are seeking your views on *A Plus*, and conducting a short readership survey to determine what you enjoy reading and areas of the magazine you think could be improved. I hope you take the time to complete the survey.

Finally, I had an enjoyable evening with members and guests at the annual Sports and Recreation Night in Sheung Wan on 27 July. The fun and games at events like this are where we can let our hair down and enjoy the company of fellow members with interesting talents. I enjoyed seeing the lively dances, and fitness competitions between members of the different groups. Not forgetting, Vice President Patrick Law and Past President Clement Chan demonstrating their angelic voices which they unleashed on us in a lovely singing rendition. Accountants plus the curtain call.

Eric Tong
President

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A position of trust

Teresa Ko, China Chairman of Freshfields Bruckhaus Deringer and IFRS Foundation Trustee member, shares her views on Hong Kong's IPO scene



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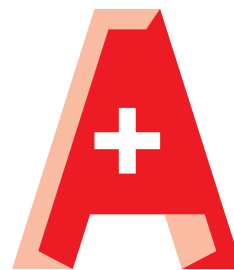
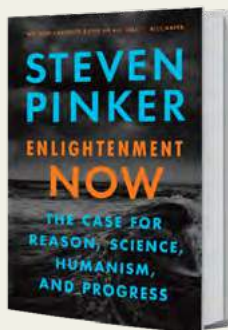
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Driving business success

About our name

A Plus stands for excellence, a reference to our top-notch accountant members who are success ingredients in business and in society. It is also the quality that we strive for in this magazine – going an extra mile to reach beyond Grade A.



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The digital version is distributed to all 42,801 members,
17,620 students of the Institute and 2,358 business
stakeholders every month.



News

Institute news Accounting news

Institute news

PAIB conference 2018 to give members a reality check

This year's professional accountants in business (PAIB) conference, titled "The Day After Tomorrow: A Reality Check for Accountants Today," will take place on 8 September. It will provide an overview of the key challenges and opportunities ahead for PAIBs, with the aim of helping them keep their skills and knowledge relevant in today's ever-evolving marketplace.

The guest of honour, Laurence Li, Chairman of the Financial Services Development Council, along with other speakers, will share their insights on topics including professional ethics in business, future of the finance function, as well as the development of the capital market. Confirmed speakers include representatives from Alipay Payment Services (Hong Kong), DBS Asia Capital, Deloitte China, EY, Grant Sherman Appraisal, and the Independent Commission Against Corruption.

Members are encouraged to send their views on the subjects to the Institute in advance via the dedicated event page on Facebook. Interested members should enrol by 3 September.

Workshop on credit facility letters

A workshop on 12 September will cover how to effectively negotiate terms and conditions with commercial banks. The workshop, which is part of the Institute's Corporate Finance Series, will analyse term sheets in the context of bank borrowings from the perspective of an experienced banker. S. Lai, Executive Director at iFinance (Asia), will be the speaker.

Interested members should enrol by 11 September.

Specialist training on international tax

The international tax course begins on 15 September and runs until January. The course aims to equip participants with international tax concepts needed to provide competent tax advice on cross-border transactions. The course is a compulsory component of the Institute's Professional Diplomas in China Tax and Hong Kong Tax.

From CPA to CPA Plus programme

A two-day CPD programme tailored for finance professionals looking to

build up a holistic business mindset, from financial investment theory to practical application, will take place on 2 and 9 September. The "From CPA to CPA Plus" programme consists of four modules covering: business mindset buildup, generally accepted management principles, structural and systematic analysis and holistic business appraisal. Participants should have at least five years of post-CPA qualification work experience. Enrolment deadline is 2 September.

Sports and Recreation Night

Around 280 members and guests joined the annual Sports and Recreation Night on 27 July, where Vice President Patrick Law, Past President Clement Chan with other



Sports and Recreation Night



The Institute's table tennis team at the Integrity Cup Table Tennis Competition

members delivered a remarkable singing performance. Members enjoyed the night with plenty of networking and games.

Table tennis success in Guangzhou

Congratulations to the Institute's table tennis team for winning the championship and three other awards, women's singles, men's doubles and women's doubles, at the Integrity Cup Table Tennis Competition 誠信杯乒乓球賽 over the weekend of 21-22 July in Guangzhou. The team competed against 26 other teams from across the Guangdong province, Macau and Hong Kong.

Council meeting minutes

The abridged minutes from the June Council meeting are now

available for members to read. They can be found in the "Members' area" of the Institute's website.

A Plus audience survey

To gain a better understanding of our readers' interests and reading habits, members are invited to complete a quick survey, which is available on the Institute's website. Answers will help improve the print and online versions of *A Plus*.

A Plus seeks Cyclothon entrants

Taking part in the Hong Kong Cyclothon in October? *A Plus* would like to feature participants for an upcoming article. Contact Jeremy Chan at jeremy.chan@mandl.asia for more details.

Resolution by Agreement

Cheng Po Yuen, CPA (practising) and Zenith CPA Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute.

Zenith CPA Limited expressed an unmodified auditor's opinion on the consolidated financial statements of Landing International Development Limited, a company listed in Hong Kong, and its subsidiaries for the year ended 31 December 2015. Cheng was the engagement director for the audit.

The basic and diluted loss per share disclosed in the

audited financial statements was misstated due to a formulaic error in the calculation of the weighted average number of ordinary shares in issue. In March 2017, the company issued a clarification announcement disclosing the correct basic and diluted loss per share.

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

1. Cheng and Zenith CPA Limited acknowledge the facts of the case and their non-compliance with the relevant professional standards;
2. they be reprimanded; and
3. they jointly pay an administrative penalty of HK\$25,000 and costs of HK\$10,000.

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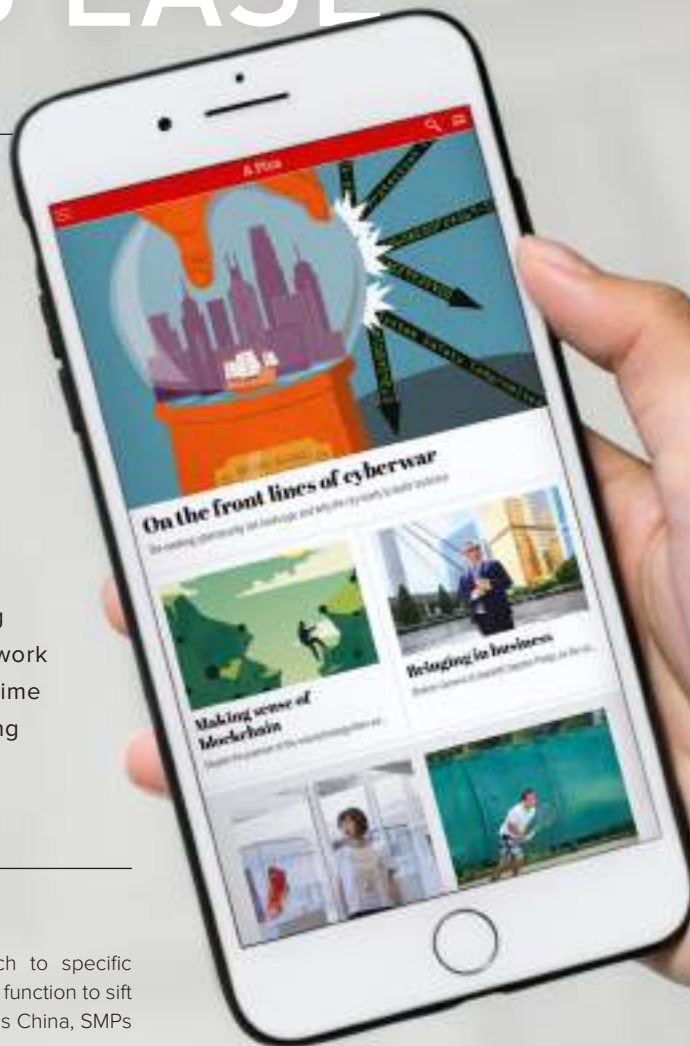
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Driving business success

Disciplinary findings

Lee Yiu Sun, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute and being guilty of professional misconduct.

Lee was the executive director, chief executive officer and compliance officer of a Hong Kong-listed company, First China Financial Network Holdings Ltd. (First China). He was found by the Court of First Instance in a court action filed by Securities and Futures Commission to have breached his director's duties to the First China by falsely putting forward a non-existent agreement, causing the company to wrongly pay a dividend of RMB18.69 million. Lee was ordered to be disqualified from being a director or involved in the management of any listed or unlisted corporation in Hong Kong for five years.

Decisions and reasons: Lee was removed from the register of CPAs for three years with effect from 12 August 2018 and was ordered to pay costs of the disciplinary proceedings of HK\$35,857. When making its decision, the Disciplinary Committee took into consideration the particulars in support of the complaints, the conduct of Lee throughout the proceedings and his personal circumstances.

Seto Man Fai

Complaint: Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute and being guilty of professional misconduct.

Seto was a former practising certified public accountant whose name was removed from the register for five years with effect from 22 March 2018 pursuant to an earlier disciplinary order. He was previously a director of a corporate practice, Parker Randall CF (H.K.) CPA Limited, which has now been de-registered. The corporate practice audited the consolidated financial statements of Sage International Group Limited, a company listed in Hong Kong, for the year ended 31 March 2011 and the period ended 31 December 2011 and expressed unmodified auditor's opinions. Seto was the engagement director of those audits.

The Institute received a referral from the Financial Reporting Council (FRC) about irregularities in relation to the audits. There were significant deficiencies in the accounting treatment of certain acquisition transactions, convertible bonds issued and share options and warrants granted which were included in the financial statements. Seto claimed that relevant audit procedures were carried out but he failed to provide any working papers, claiming that they were withheld by a third party.

Decisions and reasons: The Disciplinary Committee ordered that a practising certificate shall not be issued

to Seto for 12 months with effect from 21 March 2023. The committee further ordered Seto to pay costs and expenses of disciplinary proceedings of the Institute and the costs of the FRC in the total of HK\$277,705.60. The committee noted that there was a need to safeguard public interest against significant accounting errors of a listed company, that the breaches of auditing standards were fundamental, and that the respondent was seriously incompetent. The committee further noted the FRC did not accept Seto's assertion that relevant audit procedures had been carried out.

Andrew David Ross, CPA (practising), Fok Wai Ming, CPA (practising) and Baker Tilly Hong Kong Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute.

Baker Tilly was a newly appointed auditor who expressed an unmodified auditor's opinion on the consolidated financial statements of Code Agriculture (Holdings) Limited, a company listed in Hong Kong, and its subsidiaries for the year ended 31 March 2012 (2012 financial statements). Ross was a director of Baker Tilly who issued the auditor's report on behalf of the corporate practice. Fok, a director of Baker Tilly, was substantially involved in the audit.

The Institute received a referral from the FRC about auditing irregularities in relation to the audit of the 2012 financial statements. The group's financial statements in the previous years included errors in the accounting treatment of a substantial acquisition. Those errors affected the opening and year-end balances and comparative information in the 2012 financial statements. Deficiencies were found in the audit procedures conducted by the respondents on the balances pertaining to the acquisition. Furthermore, Baker Tilly did not have adequate policies and procedures to ensure clear designation of an engagement director and appointment of an engagement quality control reviewer in the audit of the 2012 financial statements.

Decisions and reasons: Ross, Fok and Baker Tilly were reprimanded. In addition, the Disciplinary Committee ordered Ross, Fok and Baker Tilly to pay penalties of HK\$100,000, HK\$100,000 and HK\$250,000 respectively. Further, the three respondents were ordered to pay costs and expenses of disciplinary proceedings of the Institute and the costs of the FRC in the total of HK\$117,372.20. The committee noted from evidence presented in the disciplinary proceedings that the breaches identified were a manifestation of a systemic problem in the respondents' audits, which included audits of listed companies that could have adversely affected public investors' interests.

Details of the disciplinary findings and guidelines for the Resolutions by Agreement are available at the Institute's website: www.hkicpa.org.hk.

Apple reaches US\$1 trillion in market value

Tech giant Apple became the first publicly listed United States company to reach US\$1 trillion in market value on 31 July, beating Amazon and Microsoft to the crown.

In a memo to Apple employees, Chief Executive Officer Tim Cook said: "At our closing share price of US\$207.39, the stock market now values Apple at more than US\$1 trillion. While we have much to be proud of in this achievement, it's not the most important measure of our success. Financial returns are simply the result of Apple's innovation, putting our products and customers first, and always staying true to our values."

According to *BBC News*, by expanding its source of profits, the company makes US\$10 billion every three months from App Store sales, cloud storage and its music streaming service.

Amazon, which has reached US\$900 billion in stock market value, may be next in line to hit the trillion dollar mark, according to *Forbes*.

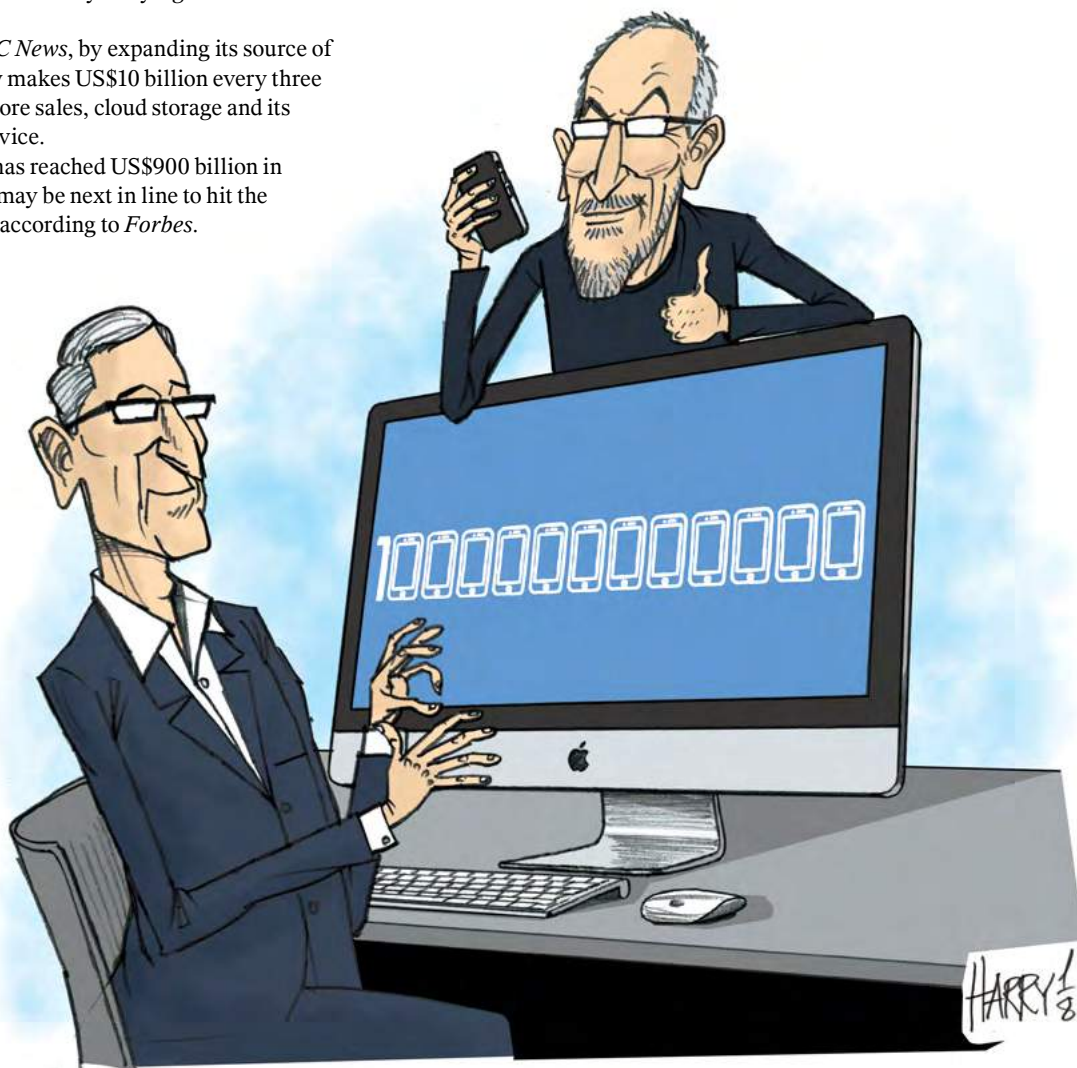


Illustration by Harry Harrison



Exxon face suit over climate-change accounting

American oil giant Exxon Mobil face a lawsuit by investors who claim that the company’s shares dropped on the disclosure that regulators were scrutinizing its reserve accounting related to climate change, *Bloomberg* reported this month. The United States District Court Judge denied Exxon’s bid to dismiss the suit, and wrote that the Greater Pennsylvania Carpenters Pension Fund sufficiently pleaded securities fraud claims against the company and several of its executives, including former chief executive officer Rex Tillerson. Investors said the company refused to write down any of its oil and gas reserves in the face of declining oil prices.

KPMG: companies not taking ESG seriously

Some Hong Kong-listed companies are failing to see the value of environmental, social and governance (ESG) reporting and are treating it as a box-ticking exercise, says KPMG, according to the *South China Morning Post*. “Like financial statements, if you only give the numbers without explaining the details, the readers cannot appreciate the substance of the performance,” Patrick Chu, Head of Business Reporting and Sustainability at KPMG, and an Institute member, was quoted as saying. A compliance review report issued by Hong Kong Exchanges and Clearing in May revealed that only 38 percent of 400 listed companies complied on all 11 ESG aspects in their first report after the requirements came into effect in 2016.



Cryptocurrency producer plans Hong Kong IPO

Beijing-based Bitmain Technologies, the world’s largest producer of cryptocurrency mining chips, is planning a Hong Kong initial public offering that could raise as much as US\$3 billion. The company, founded by 32-year-old Jihan Wu, designs chips known as application-specific integrated circuits, which are ideal for number crunching required by cryptocurrency miners. A listing could give the company, which controls an estimated 80 percent of the market for mining gear, the extra funding needed to explore other industries such as artificial intelligence, according to media reports. “The challenge is advancing our technology beyond what we’ve already achieved,” Wu said in an interview with *Bloomberg* in May.



EY taps into legal services

EY in the United Kingdom has acquired Riverview Law, a London-based provider of legal services, the firm announced on 7 August. The acquisition of Riverview Law will extend the existing EY Law offering and add talent in legal innovation and operating model transformation. The law firm will be known as EY Riverview Law once the acquisition is complete, with EY Global Head of Alliances for Tax, Chris Price, as its Chief Executive Officer.

A world of numbers



18%

The percentage of how much the value of Mainland China mergers and acquisitions (M&A) fell in the first six months of 2018 to US\$348 billion, despite a slight increase in the volume of transactions, according to PwC. Deal values fell across the four main sub-sectors of M&A: domestic strategic buyers, foreign strategic buyers, private equity deals and Mainland China outbound.

20

The number of audit clients KPMG South Africa has lost since 2017. The embattled firm has faced heavy criticism over its work for the Gupta family and its audit of collapsed lender VBS Mutual Bank.

33%

The percentage of women working in the United States financial advisory industry who are likely to find new jobs in the industry after an incident of misconduct, compared to 47 percent of men who can, according to the report *When Harry Fired Sally: The Double Standard in Punishing Misconduct*.



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1 Deloitte extends retirement age

Deloitte Australia is allowing its partners to work beyond the age of 62. While the firm's unofficial policy requires partners to retire upon reaching that age, its new Chief Executive Officer Richard Deutsch told the *Financial Review*: "My personal view is it's about energy and I have no issue with us having partners working beyond 62." A Deloitte Australia spokesperson said that while the firm does not have a retirement age for employees or partners in Deloitte, there are no partners over the age of 62.

3 Wildfire victims to qualify for tax relief

Victims or those affected by the wildfires that ripped through California since late July, may qualify for a tax relief from the Internal Revenue Service (IRS). The IRS said affected taxpayers who reside or have a business in Shasta County, one of the worst-hit areas of the fires, may qualify for tax relief of up to four months. As of 20 August, a total of 5,511 fires had burned an area of 4,228 square kilometres, according to the California Department of Forestry. The IRS provided the same four-month relief period in response to the wildfires in 2017, which burned a total of 5,590 square kilometres of land.

2 PwC creates tool to detect fake steaks

PwC has developed an invisible barcode technology that aims to tackle food fraud. Consumers of beef will be able to scan the barcode and get information about the origins of the meat they are buying through their smartphone. The firm is set to launch the detector in Australia and China over the next year, following a trial with Australian beef producer Vic's Premium Quality Meat. Slices of beef will be sprayed in the slaughterhouse with very fine particles of silicon dioxide, which acts as an edible barcode tag.

4 Sean Connery paid accountant in suits

EON Productions, the British film production company behind the James Bond film series, claimed last month that film star Sean Connery paid his accountant in Bond movie suits. Meg Simmonds, archivist for the production company, told the *Daily Express* in the United Kingdom that the actor kept all suits he had requested for himself. EON had to buy back the costumes over the years, and during an auction for a coat Connery wore in *Dr. No*, Simmonds found that the vendor could have been Connery's accountant. "So I thought, 'So he paid his accountant with costumes'," said Simmonds.

Artificial intelligence

RISE conference



AI ON THE RISE

Liana Cafolla attends Asia's largest technology conference, RISE, and finds out how artificial intelligence and robotics are changing the way companies do business, and changing the world

Illustrations by Ester Zirilli

From how we meet potential partners and use language to how we soothe newborns and get movie recommendations, artificial intelligence (AI) permeates every corner of life.

In the corporate world, it is bringing about major changes to how some of the world's biggest companies conduct their business and shape their plans for the future. "I think 2018 is the year of AI everywhere, and for Microsoft, that's the case," said Brad Smith, President of technology giant Microsoft, at the RISE technology conference, which took place at the Hong Kong Convention and Exhibition Centre last month. "We are creating what are basically AI-fuelled apps."

AI is many things, according to Smith. "A lot of what it comes down to is the ability of computers to understand the world, and to perceive the world the way people do." Microsoft Asia has 3,000 engineers working in Beijing who are mainly concerned with creating parity between computers and humans in several fields. The company has seen major advances in areas including language, facial and emotion recogni-

tion. One of its most successful apps is Microsoft Translator, an app that can translate between 62 languages.

An AI's success rate is based on measuring the error rate, Smith said. Microsoft software has now reached an accuracy rate of 96 percent in image recognition, and 94.6 percent in understanding human speech. "But the last 10 percent is always the hardest," he added.

"I think 2018 is the year of AI everywhere, and for Microsoft, that's the case."

Microsoft has found that language comprehension is more complex than it appears. "We start with the premise that as human beings, we understand everything that's said – we have 100 percent comprehension," says Smith. "Well, it actually turns out that we comprehend about 96 percent of what's being said, but our brains fill in the rest."

Andy Chun, Associate Professor

at City University of Hong Kong and Convenor of the Hong Kong Computer Society's AI Specialist Group, agrees that the remaining 4 percent deficit is a barrier that AI has yet to surpass. "Four percent is often the 'common sense' – knowledge that all humans have but AI doesn't, at least not yet," he says. "Another part of the 4 percent is knowledge that is implicit or implied. In order for AI to fully understand, it must achieve some degree of 'general intelligence' or 'general AI.' This is a challenge that is still beyond current AI research."

When Hollywood does AI

In the entertainment world, robots have been working for years behind the scenes, in many cases not obvious by the viewing public. Daniel Seah, Chief Executive Officer of Digital Domain, a California-based visual effects and digital production company that has created visual effects for films including *Titanic* and *Pirates of the Caribbean*, says visual effects are well known in movies such as *Avengers: Infinity War*, with virtual humans playing roles. But virtual humans also play less

recognizable parts, such as in *The Curious Case of Benjamin Button*, a film starring Brad Pitt as a man who ages in reverse, starting life as an old man who progressively becomes younger as the years go by.

“Brad Pitt only participates less than 20 percent, when he plays himself as his real age. The rest is completely a virtual human,” said Seah at the conference.

According to industry media reports, in the latest *Avengers* film, the company used an AI algorithm trained on high-resolution scans of actor Josh Brolin’s face to track his expressions down to individual wrinkles, then used another algorithm to automatically map the resulting face renders onto the body of the character Thanos, before animators went in to make some finishing touches. “We scan them and we use a body double. It means that a lot of actors and

actresses can be replaced. It’s happening already.”

Much of AI so far has focused on responding to or copying human actions and Seah sees the digital entertainment world now moving onto prediction. “It’s interesting to know how human emotion affects a face,” he said. “We have a database of about 40,000 facial expressions, and we are beginning to predict facial expressions based on the emotions.”

“Brad Pitt only participates less than 20 percent when he plays. The rest is completely a virtual human.”

The future of love

Sean Rad, Founder of online dating app Tinder, spotted a gap in the market when he looked at online dating options in the days before Tinder, which was launched in 2012. Early dating sites were designed for people who had no time to date, or who lived in rural areas. “They were essentially databases, and they failed to recognize a basic human dilemma,” said Rad at RISE, referring to the fear of being rejected. By eliminating the element of rejection, Rad was able to attract users. He developed what became known as swiping right or left – swipe to the right on the app to like someone, or left to move on to the next profile.

Rad is envisaging the future Tinder experience. “In five years, instead of me swiping on Tinder, I may talk to my phone, and my phone might describe a

Digital vs. traditional companies

Hong Kong’s former financial secretary John Tsang now chairs Benefit Vantage Limited, a company that specializes in providing companies with web and mobile-based cybersecurity and data protection services. “We have a one-click, log-on solution – this is something we think is going to change the world,” said Tsang at the conference. “I’ve always said you’re never too young or old to be an entrepreneur. Entrepreneurship must have a purpose and my purpose is to change the world.”

From his career in government, Tsang believes that the government has an important role to play in pushing Hong Kong’s transition to becoming a technological society, but cautioned that it was in the nature of the government to move slowly. “Government bureaucracy is so huge that you need to give it time to change, and it will change,” he said. “I do encourage people in government now to have more courage and a better vision and to move ahead.”

He believes Hong Kong’s success in a tech-driven world depends on how it educates its young people. “Education is key to everything. We need to revamp our entire curriculum system in our schools, in order to have a more distributed type of education system – an education system that [teaches you different things at] different stages of life.”

Some companies are starting to adopt technology to upgrade

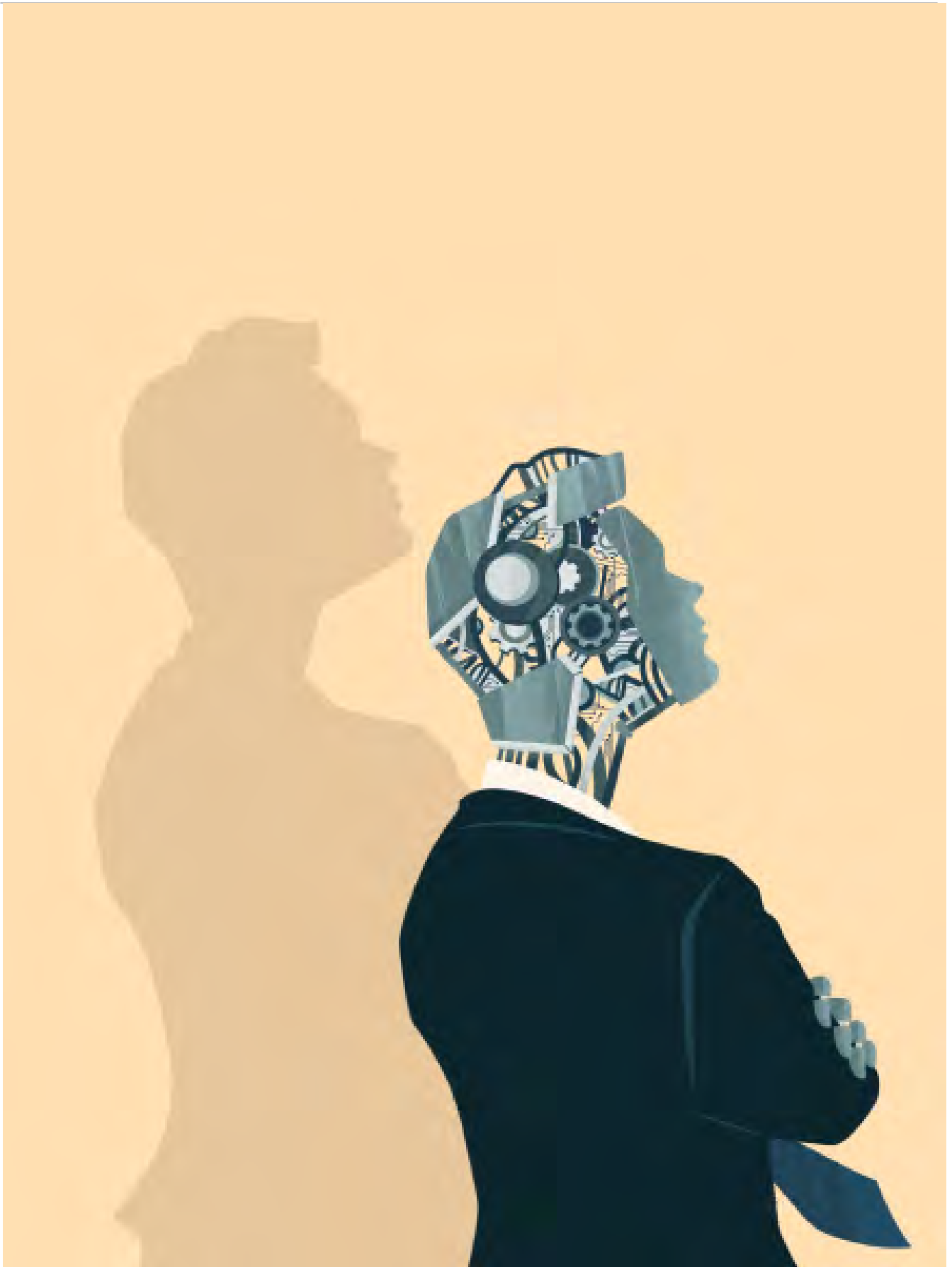
their existing non-technology based work systems. Esquel Group, a Hong Kong-based textile manufacturing company, has been waking up to the need to integrate innovative technology into their workplaces. “We need to use information to create value,” said Chairman Marjorie Yang, also at the conference, who is leading the company towards a new digital path.

Yang said that companies in sunset industries like hers need to embrace technology to reinvent themselves and avoid becoming unattractive to employees. She also sees a need to push parents to encourage their children to learn new technologies. “Hong Kong is going to build an economy based on innovation, but we’ve got to have the manpower to fuel the innovation, so we are working with teachers and parents,” Yang said.

Yang believes that there is room in the business world for both traditional companies that are also digital companies. She sees an opportunity to use technology to empower and motivate her workforce of more than 50,000 people.

Starting with women aged about 45 with no experience or education in technology, Esquel has started to teach the workforce to build apps. She said mothers love the opportunity to go back to their kids and say, “I’ve built an app!”

“We teach our staff to build apps so now they feel they can master technology, rather than feeling that are going to be lunch for technology,” she said. “So now we have an opportunity to become a digital company.”



potential partner to me and suggest a date. That introduction might be created by some sort of AI,” he said. “The reality is that as technology gets better, it brings us closer together, not further apart.”

He added how AI can help people connect in new and more efficient ways in the real world. For example, AI could help to filter email messages and then act to interrupt us, if required. “If I’m having lunch with my mum, maybe that email from work isn’t a priority right now,” he explains, while “maybe something from my fiancée is relevant.”

Talking on the effects of the Internet on businesses, Rad said: “You need to think of yourself as global from day one.” At the same time, companies need to be able to adapt their business model to meet local conditions and expectations, he added. “You can’t assume that one thing works everywhere,” says Rad. “For us, it wasn’t enough to just localize the app in different languages. We really needed to understand what made every country unique. There are universal things that make us human, but there are different cultural impacts. In the first three months, we had teams

in every country, giving us feedback.” The feedback was then used to make changes to the app based on local preferences, and improve its performance both globally and in specific markets.

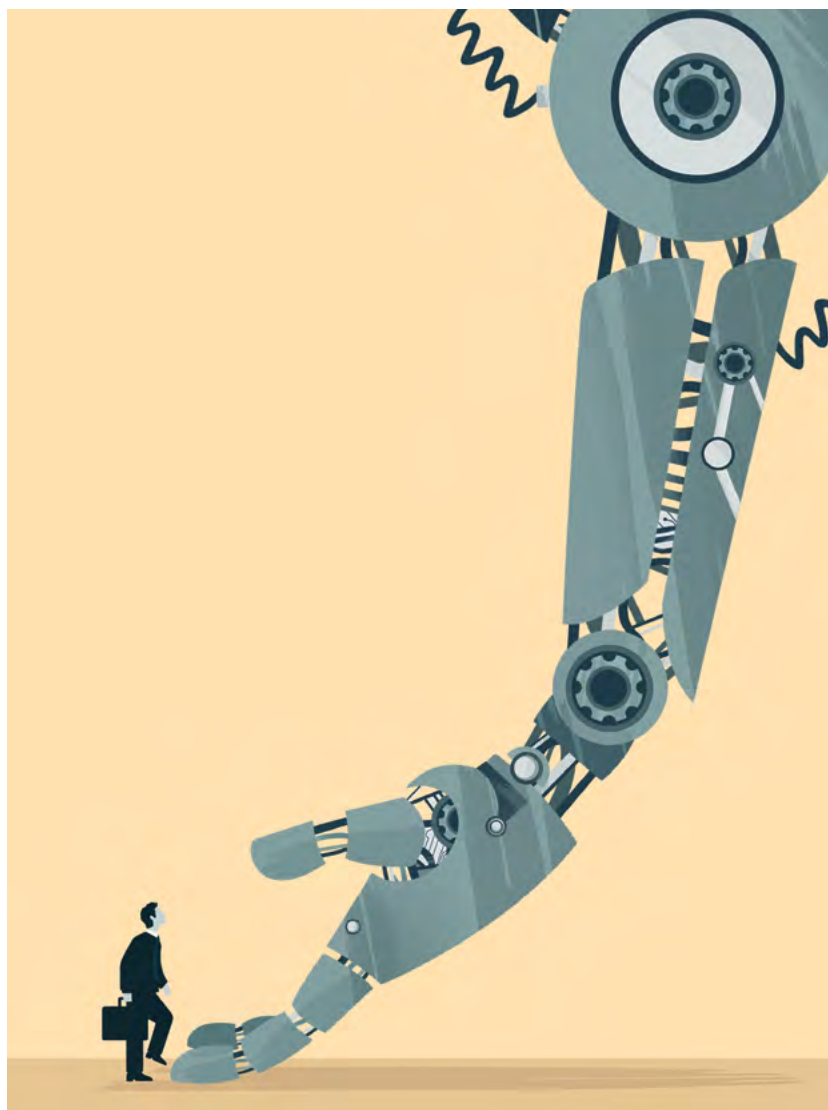
Ethical concerns

Smith at Microsoft said that key questions will arise around ethics. “The future will be what we make it. One of the most important questions is not what computers can do, but what computers should do. We’re going to need a new type of conversation when it comes to AI and ethics, and a new generation of laws.”

He said six ethical principles are under discussion at Microsoft – fairness, safety, reliability, privacy, security and inclusivity. By reducing bias, the company is able to promote fairness, especially in how machines identify people through facial recognition. The technology, however, has proven less accurate in identifying women than men, and in picking out dark complexions compared to lighter ones, a deficiency Smith says has occurred because of a lack of a sufficiently diverse data set.

“If we’re not careful, we will build machines that have precisely the types of biases we’ve worked so hard to reduce,” Smith said. “This has therefore become one of the great challenges in computer science. You see it in the area of facial recognition perhaps above all else right now.” Ensuring transparency and accountability is also essential, he said. The enormous amounts of personal data being collected online, and its vulnerability to theft and abuse has made the public wary about the uses of AI.

Smith believes the correct response is to show that technology can and should be used in positive ways that help people (see *Using AI for good* sidebar). “We have to show the world that we’re not just using these technologies to benefit ourselves and grow our businesses,” he said. “We



have to show the world that we have the capability to use this to help solve some of the world's most pressing problems."

Robots and jobs

While much of the debate around AI has focused on how many jobs could be lost to robots or automation, Smith offers hope. "AI will replace some jobs, and it's going to create some new jobs. One way you can predict what's going to be replaced is to look at what AI does well: if that's what you do, your job might be at risk." For example, AI understands speech very well, so jobs such as taking orders in fast food restaurants are at risk, while teachers, therapists and nurses may be impossible to replace.

One trend that he clearly sees is the increasing digitalization of jobs. "Over the last 15 years, more tasks in more jobs have required digital skills," he said, noting that digital jobs also pay more. "We have to equip people with these skills."


While many jobs can be enhanced through AI, not all tasks can be replaced by it. Seah at Digital Domain points to the labour intensive hospital-

"One way you can predict what's going to be replaced [by AI] is to look at what AI does well: if that's what you do, your job might be at risk."

ity industry, which has many roles that could seem ripe for replacement by robots or virtual humans. But it's not so easy, he says, who believes that only apps with strong human characteristics are acceptable to the public in the hospitality industry, because an element of trust in the person serving you is essential. That would rule out, for example, cartoons and animated figures, but there are other possibilities. "Think if Siri had a face – if it could be someone that you love, your daughter, or your partner, someone you trust," said Seah. "There are so many businesses that rely on high labour costs. If we can have

celebrities – Brad Pitt for example – respond to us in call centres, that could be fantastic."

Professor Chun says the potential impact of AI in accounting covers all aspects of accounting work. "For example, in client-facing situations, AI chatbots can help answer questions on the accounting practices or details of transactions. Using natural language processing and cognitive computing, AI can process and understand all current accounting laws and regulations, and then apply them to determine compliance, for example." AI deep-learning can be used to recognize irregularities and identify potential frauds, he adds.

"In the movie *The Accountant*, the main character had a form of autism that allows him to study and remember millions of numbers, as well as correlate and identify patterns among the numbers. In the movie, he reads and remembers millions of numbers in years of accounting books for a major corporation to identify how someone was embezzling the company through a series of elaborate transactions across several subsidiaries. This is what AI can do for accounting." 

Using AI for good

New parents suffering sleepless nights and the lack of mobility among the elderly are some of the real-life problems that are being alleviated through the use of AI.

Superflex powered clothing was created by designer Yves Béhar's Fuseproject company and robotics company Superflex to help improve the mobility of the over 65s who find it difficult to perform everyday tasks such as getting out of bed or loading the dishwasher.

"Our design is power clothing that feels like a second layer of skin that can sit inside your regular clothing, with fibre muscles and sensors lying on top of your real muscles to boost your mobility from the age of 70 to the age of 25. Most importantly, it helps you to continue exercising your muscles," explains Fuseproject's Vice President of Design Qin Li.

The lightweight clothing is made with motors, sensors and AI embedded into its fibres that sense and react to the body's own movements. The clothing runs on batteries and the

fibre muscles move along with the real muscles to make the experience feel natural.

Fuseproject also worked with start-up company Happiest Baby to develop Snoo, a smart baby crib that helps parents address sleep deprivation by soothing babies back to sleep. A baby who wakes up crying is gently rocked back to sleep within seconds with no parental intervention required, thanks to hidden AI-driven sensors and motors located underneath the bassinet. By detecting the sound and the movement of the baby, the bassinet automatically reacts to provide the movement and the white noise to soothe the baby back to sleep.

Microsoft's "Seeing AI" app for the visually impaired was released a year ago and has been used more than four million times. It can verbally describe what's happening in the phone camera's immediate vicinity and read out emails, document contents and instructions on backs of food cans. "The truth is, AI is absolutely a game-changer for people with disabilities," said Microsoft's Brad Smith. "In the next 10 years, these technologies will take us very close to curing cancer."



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Dennis Fullgrabe

The Course Director of the Institute's Financial Controllership Programme on how financial controllers' broader, more strategic role today should push them to revisit their skill set



Getting ahead of the competition as a financial controller

A financial controller (FC) is no longer expected to merely handle accounting matters such as month-end or statutory reporting. Companies are expecting their FCs to be not only a strong finance professional but also a key strategic business partner, able to work across the company.

This broadening role provides many opportunities but also challenges to an individual's skills development and priorities. New skills and knowledge expected of a financial controller are needed, along with a willingness to work outside the traditional comfort zone of numbers and reports.

Corporate governance best practice

The risk management and corporate governance module of the Institute's Financial Controllership Programme (FCP) focuses on the principles of good corporate governance as set out in the Hong Kong Stock Exchange's Corporate Governance Code for listed companies. The principles, which should apply to all companies, have been developed in line with international best practice. Key areas that companies must look at include: the duties, composition and balance of the board; separation of chairman and chief executive roles; supply of and access to information; corporate social responsibility; and corporate governance-related transparency, and the independence of independent non-executive directors.

Being able to recognize the issues and difficulties of applying corporate governance best practice will greatly enhance an FC's confidence and ability to interact with senior

management and independent directors. This proactive approach will also better enable an FC to understand what essential data and analysis senior management and the board require in order to make informed decisions. Also, by having a closer interaction with the FC, the management and independent directors will have a clearer appreciation of the important role the finance function plays in achieving mutual objectives.

Risk management and internal control

It is also important in today's environment for an FC to understand how risk management and internal control play an integral part in the broader need for good corporate governance. The board has the ultimate responsibility for ensuring the company has adequate and effective risk management and internal control systems, including determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives.

As CPAs, we are already well trained in financial systems and controls. Using this knowledge and experience at the wider operational and strategic levels is a significant opportunity for FCs to build cross-functional relationships, and to increase their visibility as a true business partner across the company. To achieve this, however, FCs need to think beyond financial risks. They need, for example, to consider regulatory risks, such as unexpected new legislation, and how to deal with them.

The risk management and corporate governance module provides participants with practical tools and the confidence to advise on their companies' risk management

and internal control systems from an integrated, enterprise-wide perspective, where the focus is on the consequence for the whole enterprise and risk management is more closely aligned to the strategy of the organization. With such an approach, FCs will be able to encourage treating risks in a more holistic, comprehensive way, ensuring that all business decisions are based on proper risk assessment and management that defines the overall effect of uncertainties on the company's objectives.

Enhancing your skill set

The FCP is a tailor-made and practical training programme to help more Institute members gain new all-round skills essential for an effective FC. It is highly recommended for those looking to move into an FC role and for those recently appointed or more experienced FCs who wish to refresh their skills. Graduates have commended the programme, saying they gained valuable hands-on experience and knowledge (see *A Plus* May 2018 issue, *The Career Controllers*).

The four-day risk management and corporate governance module, which runs from September to October, explores the practical issues of corporate governance and risk management in a company through content and case studies augmented by guest speakers who share their wealth of experience. Institute members can register for this as an individual module. Undertaking this further learning will help to diversify and enhance your skill set and will give you an upper hand to get ahead of the competition, and increase your overall future value to your business.

“New skills and knowledge expected of a financial controller are needed, along with a willingness to work outside the traditional comfort zone of numbers and reports.”

Leadership profile

Teresa Ko



A position of **trust**

Hong Kong lawyer Teresa Ko joined the IFRS Foundation Trustees, responsible for the governance and oversight of the International Accounting Standards Board, at the start of 2018. The Freshfields Bruckhaus Deringer China Chairman and Partner tells *A Plus* about her role, and how Hong Kong and China can contribute to enhancing global financial reporting standards

Photography by Calvin Sit

As a corporate lawyer, Teresa Ko has a lot of respect for the accounting profession. “I’ve had many fantastic collaborations and co-operations with accountants. We kind of go hand-in-hand and we help each other out,” says the China Chairman of international law firm Freshfields Bruckhaus Deringer. “It’s been a very successful partnership.”

That relationship has become even closer. In December, Ko was named one of seven new trustees of the International Financial Reporting Standards (IFRS) Foundation, which is responsible for the governance and oversight of the International Accounting Standards Board (IASB).

Taking up her role from 1 January this year, Ko and the 21 other trustees manage oversight of the foundation in the public

interest, its strategic direction, and appointments to the IASB, IFRS Interpretations Committee and IFRS Advisory Council. They also ensure the financing of the foundation and approve its budget. “The foundation’s mission is to develop IFRS standards that bring transparency, accountability and efficiency to financial markets around the world,” says Ko. “I happen to believe passionately in transparency and accountability.”

She sees the IFRS as a bulwark of stability in an increasingly fragmented world. “The goal of the IFRS Foundation is to have a single set of high-quality, internationally recognized and global accounting standards. Now that we see globalization facing unexpected headwinds on many fronts – Brexit, Donald Trump and other challenges to the status quo – it is refreshing to

see a global not-for-profit organization still thriving. I strongly believe in the IFRS’ vision, which will benefit economies around the world, if it can be realized. It’s a role in which I feel I can make an important contribution, and it’s a privilege to be part of it.”

Hong Kong, she adds, as an early adopter of IFRS along with the European Union, Australia, New Zealand and South Africa, has an important role as a driver of IFRS awareness. “I very much feel that having a seat at the table allows us in Hong Kong and in the wider context – Mainland China and the rest of Asia – a voice to help to drive this forward.”

As an international financial centre, Ko observes, Hong Kong is committed to adopting all IFRS standards. “Hong Kong, has some of the leading financial services

Leadership profile

Teresa Ko

corporations (including insurance companies), and with IFRS 17 *Insurance Contracts* becoming effective in 2021,” she says. “We can take leadership in embracing some of these financial reporting changes which are intended to bring more transparency to the underlying businesses.”

Making shorter statements

Hong Kong and its financial community are of deep interest to Ko, who has been a leading member of the legal profession for decades. Born in Hong Kong and educated in the United Kingdom, she has been a partner at Freshfields – the world’s oldest international law firm – for more than 25 years, advising on some of the world’s most groundbreaking and high-profile corporate transactions during that time.

Some might have been content with this degree of career success. Not Ko: In addition to her legal career, she spent six years as a non-executive director of the Hong Kong Securities and Futures Commission (SFC), stepping down at the end of July this year, and is a Deputy Chairman of the Takeovers and Mergers Panel. Ko also chaired the Investor Compensation Company Limited. She was chairman of the Listing Committee of the Hong Kong Stock Exchange (HKEX) from 2009 to 2012 and deputy chairman from 2006 to 2009.

She has advised many Chinese state-owned, privately owned and

multinational businesses on their initial public offerings (IPOs), which make up a number of legal fields in which she specializes. “Hong Kong should continue to do well as a fundraising centre in Asia, not just for China,” she says.

Similar to many accountants, Ko believes the listing process could be enhanced. “When I chaired the Listing Committee, one of the things I wanted, to make a difference, was to simplify and streamline the way we disclose information in a prospectus,” she recalls. One example she worked on was the IPO of Chow Tai Fook in 2011, a conglomerate company best known for jewellery. “It was billed as a handbag-sized prospectus of only 228 pages, which I drafted,” she remembers.

Since then, prospectuses have grown in size again. “Unfortunately the mindset is a tough nut to crack because it’s easier in reality to copy and paste rather than to write,” says Ko. “But I think it will result in more people reading the information if you can really write it concisely and to the point.”

Hong Kong’s unique status, she adds, enables light to be shone on the IPO process from a number of directions. “It is putting these companies on a platform which is subject to the scrutiny of regulators, investors, media and I think that is good for the healthy development of a company.”

Ko hopes the IFRS can continue



Teresa Ko has been a partner at Freshfields Bruckhaus Deringer for over 25 years.

“The foundation’s mission is to develop IFRS standards that bring transparency, accountability and efficiency to financial markets around the world.”



its work on the simplification of financial statements. “I think there has got to be more education and awareness of the importance of numbers,” she says. “You’ve got to have the information that is relevant and transparent, rather than to have everything buried in a sea of numbers that you can’t actually make head or tail of as to what is material and what is not.”

Adjusting rules, listing crown jewels

Hong Kong has experienced a sea change in terms of IPOs with the SFC taking a harder look at candidates. “[The SFC] has been looking at all the applications and recently it has come forward with a new approach, which is to object to listings more proactively and directly, and a lot earlier on in the

process,” says Ko.

Since 2017, Ko notes, the SFC has used the subsidiary Securities and Futures (Stock Market Listing) Rules legislation to raise objections to listing applications. “It has always been given that right, but in 2017 I think they have exercised it some 40 times, whereas in 2016 they used it two or three times.”

Ko describes the intervention

Leadership profile

Teresa Ko



Teresa Ko was chairman of the Listing Committee of the Hong Kong Stock Exchange from 2009 to 2012.

as “a very positive development.” Too many companies, she argues, see a Hong Kong listing “not as a sustainable platform for them to grow their business, but as a means to either get out of [China] or to make money really quickly.” SFC enforcement, she adds, “puts a fear of God into the market, so that when you file an application, you’ve got to get it right.”

The Hong Kong IPO scene has been complicated by the new rules of the HKEX to list companies

with weighted voting rights. The first company to take advantage of this is Chinese electronics company Xiaomi. “[This] will continue to be a topic of some controversy,” she says. “It has been described as a contrived exception to the one share, one vote principle, and I think it should stay that way. Not many people would like to see weighted voting rights become commonplace.”

Ko says she would like to see more cooperation between Hong

Kong’s stock exchange and its counterparts in Shanghai and Shenzhen. “I think that it shouldn’t be a ‘them and us’ situation. I think Hong Kong should complement the development of Mainland China.”

Ko says the Hong Kong capital market is still robust. “It is incredible that it has sustained for so long,” she says. In 1993, Ko was a newly minted partner at Freshfields when Tsingtao Brewery Co., China’s second largest brewery, raised US\$97.8 million in beco-



“SFC enforcement puts a fear of God into the market, so that when you file an application, you’ve got to get it right.”

ming the first Mainland China company to go public in Hong Kong. “So that is already 25 plus years and we still are able to list the crown jewels of China’s state-owned sphere,” says Ko, who led the team advising China Tower on its US\$6.9 billion IPO – the world’s biggest in almost two years – in July.”

Biotech and the future

Ko is energized by the HKEX decision to allow pre-revenue and pre-profit biotech companies to list – with a proviso that the sector has to develop with adequate advice from experts. “Biotech is exciting but I want to see a proper market being developed,” she says.

Borrowing Deng Xiaoping’s famous words, she says navigating the fledgling ecosystem “is not even crossing the river by feeling the stones. You are feeling one stone at a time.” But, she adds, HKEX has an opportunity to “give biotech companies, which historically have only ever gone to Nasdaq or New York [Stock Exchange], an opportunity to consider a listing in Hong Kong.”

Ko cites the Beijing-based cancer drug developer BeiGene as a good example of a United States-listed company coming to achieve a secondary public offering in Hong Kong. “The valuations cannot be so hyped that we kill our market before it has a chance to develop. It is incumbent on stakeholders and early rounds of investors who are taking a longer view of our market and want to list, to exit with a big pop.”

She cautions that despite HKEX’s appointment of a Biotech

Advisory Panel, the pool of real experts in Hong Kong is limited. “The advisory panel needs to be expanded, because there are invariably a lot of conflicts. Many of the [panel members] are either listing their own company or have invested in companies which are listing, which will result in themselves being conflicted from giving advice.”

Independence is a matter close to Ko’s heart as she has watched the accounting profession grow over the years to embrace employment law, immigration, tax law, due diligence work, and other areas once in the territory of lawyers.

“[Accountants] have specialized in many areas, helping clients with corporate advisory, consulting, feasibility studies and internal review work. Because of the auditing work they do they are so much closer to the client [than lawyers]. But clearly they need to balance this against the need to stay independent with their auditing work.”

Where accountants and lawyers agree is on the application of “not just a healthy but a serious dose of professional scepticism,” she concludes. “I tell our team, assume nothing. That does not say that you expect everybody to be a crook, but you have to apply your independent judgment.”

For Hong Kong to maintain its global status, Ko is forthright. “I think we need to up our standard of quality,” she says. “We need to strive to maintain, if not enhance the standard of our professionals and support our courts.”



IFRS Foundation Trustees’ responsibilities include oversight of the organization in the public interest; its strategic direction; appointments to the IASB, the IFRS Interpretations Committee and the IFRS Advisory Council. It also ensures the financing of the organization and approval of its budget.





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by Rachael O'Meara

The transformation leadership and executive coach, and author of the book *Pause*, on how to switch off and enjoy a quality break – even without going away



Three steps to creating your holiday pause

Have you ever found yourself anticipating joy and fun for an upcoming holiday trip, only to find yourself preoccupied with thoughts or issues before jetting off? The entire trip seems like a blur and you realize you are no more rested or refreshed than before you left.

Despite our best efforts, it is all too easy to feel shortchanged after a holiday, usually because we spend more time planning what to do (“see this,” “visit that,” “spend time with x”) versus little to no planning on the quality of how we want to experience and feel during our time away.

The good news is that with a few minor tweaks you can set yourself up for a blockbuster holiday by strategizing how and what you plan in three simple steps.

Step 1: Create your vision

What’s your vision for your well-earned time away? Vision comes from a place of possibilities and openness. It’s not about sticking to the same old. Envision your *quality of life* as the person you want to be. Use the first person. Keep it simple. It can be one sentence you can orient to in any moment on your holiday. It could be “I enjoy myself” or “I disconnect and recharge” or “I feel relaxed and find the joy in any moment.” Write it down on a piece of paper. Create a vision for your family or the group you are with.

Step 2: Set your intention

If vision is orienting you to how you want to *be* on the trip, setting the intention is the *how* of your holiday pause. It is an easy way to tap into what you really want, adds meaning, and helps you focus on a specific outcome. Ask yourself, “What do I want to get out of this moment, meal, or [insert what your activity is]?”

Ideas:

1. Pick a word for the day. One couple I know took turns each day picking a word of the day such as “play,” “connect” and even “intention” to focus on.
2. Take time to think about how you came to plan a meaningful holiday pause. Was it reading this article? Was it allowing yourself a few minutes to be and not do?
3. Have a morning ritual you practice that describes the quality of your experience.

Step 3: Create your holiday pause plan

It’s important to know *how* you want to spend your holiday time. It doesn’t need to be detailed. Instead, it’s OK to be vague and open. This could be writing about your ideal holiday – your vision, intention and actions you will take to get there. Be careful if you notice you start planning to do so much that it may not be realistic. Aim for a balance of BEING and DOING. This is an opportunity to change your routine of what you typically do and the

quality of how you do it. One fun way to do this is to write a letter to yourself from your inner voice on what you will experience as a result of this trip. Or imagine you are a dear friend writing what he or she recommends for your time away. What is the quality of your experiences? How will your life be different as a result of your holiday pause?

Additional tips for a blockbuster holiday

1. **Create boundaries.** Create a few rules you want to have for structure and/or behaviours you want to create.
2. **Savour the really good stuff.** When good things happen, don’t just take a selfie and move on. Stop and savour how you feel.
3. **Create new habits you can take home.** Keep the holiday alive long after you return home by creating an IF/THEN statement that can help you do something different. For example, IF I think about work, THEN I will pause for three deep belly breaths.

Rejuvenate without going anywhere

You don’t need to go anywhere. Take a day, weekend, or week off and stay exactly where you are and notice the quality of what you do. You may surprise yourself how things change with a few mindset tweaks to notice quality.

“It’s important to know how you want to spend your holiday time.”

Corporate governance

CPAs for NGOs



In NGOs we trust

Just like their for-profit counterparts, accountability and transparency are core to an NGO's success. With NGO governance being more important than ever, CPAs can help build public trust in social services organizations, and support good corporate governance in Hong Kong. [Ben Kwok](#) reports

Illustrations by Roberto Cigna

Hong Kong people are very generous. According to a recent altruism poll, conducted by the University of Hong Kong, 83.5 percent of respondents had donated money to charities over the past year. The problem, however, is the uncertainty around whether charities can be trusted with the money.

Earlier this month, the Hong Kong government announced a series of measures to make the fundraising activities of the city's charities more transparent. The government also released a 33-page document titled, *Good Practice Guide on Charitable Fundraising*. Charities are recommended to adopt the guide, "to ensure the accountability and transparency of charitable fundraising activities and the use of donations so received," the guidelines read.

These measures came as a response to the Audit Commission's report last year, highlighting that regulations on charities are riddled with loopholes. The number of tax-exempt charity organizations grew 17.5 percent to almost 9,000 between the 2012-13 financial year and September 2016, according to the report.

"It is quite understandable that there is a heightened public expectation of transparency on the part of non-governmental organizations (NGOs), who after all are funded substantially by donation and/or public money," says Richard Tse, Chairman of the Hong

Kong Institute of CPAs' Community Services Working Group and Co-founder of the CPA for NGO programme. "We also need to recognize that, despite a few unsatisfactory cases, most NGOs are well run, and they perform a very important social function. The social service sector is increasingly focused on governance best practice. We are optimistic that this will lead to improvements in accountability and positive outcomes for NGOs and the community they serve."

This reminder that NGOs are publicly accountable bodies, despite their charitable nature, was emphasized last month by David Sun, Director of Audit of the Hong Kong government, during the NGO Directors' Luncheon of the Hong Kong Council of Social Service (HKCSS), a programme supported and hosted by the Institute.

Sun, a past president of the Institute, spoke to over 150 NGO board members on NGO governance and public trust; how his 500-strong team works to help the government and public sector organizations enhance performance and accountability; the importance for NGOs to maintain good corporate governance; and how such organizations can breeze through the audit process.

In 2012, former Hong Kong chief executive Leung Chun-ying brought Sun in to be director of the Audit Commission, one of the city's most venerable institutions,

established in 1844, just three years after the British colony was established.

Sun's first project after being appointed was to examine the private hospitals in Hong Kong. Seeing how the private sector and religious groups contributed to the well-being of the healthcare sector was fascinating, he said. "Hong Kong is a field of fortune. Hong Kong's open society, the rule of law and status as an international city enables us to draw many world-class NGOs to come and serve the people. For years, they have contributed a lot and played an important role in providing public service."

"Today, Hong Kong's achievement relies on NGOs," he added. "Because NGO matters, NGO governance matters even more."

Value for money audit

The Hong Kong Social Welfare Department's total estimated expenditure for 2018-19 is HK\$84.2 billion, and HK\$16.8 billion, almost 20 percent of which, make up recurrent subventions to NGOs – up from HK\$13.5 billion in 2017 and HK\$12.8 billion in 2016.

With more money at stake, the government asked the Audit Commission to look at whether the charities' income was used solely for charitable purposes. With that, the value for money audit approach began, said Sun, explaining that this is an examination into the economy,

Corporate governance

CPAs for NGOs




efficiency and effectiveness with which any bureau of the government secretariat, department, agency, other public body, public office, or audited organization has discharged its functions.

Through the words of Louis V. Gerstner Jr, the former Chairman and CEO of IBM, Sun highlighted the importance of audit, saying: “People don’t do what you expect, but what you inspect.” The commission looks at organizations

of which over 50 percent of income is made up of government subvention. Sun said it tends to look at organizations with money coming from different departments because of the potential risks involved. To help enhance the performance and accountability of the public sector, the commission takes into account the standard of behaviour of the NGO, its organization structure and practices, risk management and control, and reporting and

disclosure.

In selecting the audit subject, Sun said his commission would consider materiality, risk and timeliness in the subject matter, while also taking into account whether the audit will provide value-added insight and a high level of auditability. For example, Sun said he had received many requests to examine the Sha Tin to Central rail link, but he was hesitant to immediately take on the issue because the project is still far



“When we help NGOs to govern better, we are helping many more people, and contributing to the community. This is an efficient model.”

from finished. An audit at this moment could also raise the unnecessary legal responsibilities issue on the government side, so he would rather wait for a better timing.

He said there were often hot debates within the Audit Commission as to how and how much to audit, depending on the organization and its unique characteristics.

Caring advice

Like the Director of Audit, CPAs in general play a vital role in building public trust in social services organizations. “In the past two decades, the Institute has been a corporate governance thought leader, and a strong advocate of good corporate governance culture,” says Tse, adding that corporate governance and public trust go hand in hand.

“Good governance touches on many aspects of an NGO’s operations, from financial management to reporting and disclosure, from internal control to risk management, and from composition of the board to how board members deliver their duties. When we help NGOs to govern better, we are helping many more people, and contributing to the community. This is an efficient model.”

The CPA for NGO programme was launched in 2013 as part of the Institute’s 40th anniversary, aiming to provide a platform where Institute members can utilize their professional CPA skills to make a difference. “We want to help under-resourced NGOs, particularly smaller ones, who work very hard and yet still struggle to put in place good governance,” Tse explains. “Over the years, the Institute has learned from the experience and sharpened the focus of our community service strategy. We are proud of the dedicated pool of passionate and professional Accountant

Ambassadors, who contribute their time and, most importantly, their expertise and through working together, create something unique and impactful for the community.”

Three years later, the Institute became the sole strategic partner of HKCSS for their NGO governance platform project. Through engagement with HKCSS, the Institute has advocated best governance practices to 860 board members and chief executive officers of 280 NGOs, notes Tse. “Our engagement with HKCSS offers precious opportunities to build relationships with NGOs, mapping out the potential cross-sector collaboration to strengthen accountants’ impact on the social service sector.”

Financial reporting, reserve management, risk management and corporate governance are the main issues NGOs face that CPAs can help with. “NGOs are accountable to the donations and public funds received, and they should deliver the effective management of those financial resources. Management should monitor, analyse and evaluate the financial performance of the organization to improve performance, and to communicate important financial information to their stakeholders. While the boards and management of NGOs have good intentions, there have also been cases of mismanagement of funds that have caused public concern,” Tse explains. “As CPAs, we can help them with basic accounting knowledge and control, and raise their awareness of potential pitfalls.”

Many charities also face challenges managing their reserves, key to financial stability and their long-term sustainability. “CPAs can guide NGOs to establish a reserve policy setting the target level, and conduct reviews ensuring sound financial management,” says Tse.

Corporate governance

CPAs for NGOs



NGOs for CPAs

While the programme provides Accountant Ambassadors a sense of fulfilment and doing good, the experience itself – hosting seminars, running workshops and meeting honorary treasurers of NGOs – can be demanding. “Very rarely are CPAs representatives of NGOs,” Tse explains. “The unique volunteering experience itself is a challenge to our soft skills but also a bridge to develop them. Communication has always been a desirable soft skill for all in the workplace. Becoming an articulate speaker in front of non-CPAs is a useful training opportunity, which helps us stay competitive in the accounting profession where everyone has similar technical skills.”

One challenge, Tse adds, is catering to different NGOs’ needs. “Every NGO is unique,” he says. “You really need to find out their specific issues in order to tailor-make coaching sessions. It challenges the Accountant Ambassadors to stay creative and

flexible. They need to think outside of the box to offer solutions – this itself involves Accountant Ambassadors in problem-solving as well.”

“Every NGO is unique. You really need to find out their specific issues in order to tailor-make coaching sessions.”

Since launching, the programme has enlisted more than 170 Accountant Ambassadors and reached more than 1,500 board members, CEOs and other executives from 380 NGOs through programme activities. “The number of NGO members involved reveals the strong service demand and expertise needed in the sector, as well as the potential impact the accounting profession can bring,” Tse says.

Tse says he is looking forward to reaching out to more NGOs,

strengthening their financial reporting skills, and helping to build public trust in the sector. He believes there is more work to be done. “We hope to build on our thought leadership in corporate governance, and specifically think about the unique challenges facing NGOs,” he says. “For instance, we often hear that if and when an NGO gets additional funding, they will intuitively put it towards providing more services, rather than towards hiring an accountant. This is therefore somewhere that different thinking could apply.” By hiring an accountant, he adds, the NGO may improve their financial control and management, so that its funds may benefit more for more people.

CPAs, Tse adds, have the potential to become enablers of charities. “These NGOs provide over 90 percent of social welfare services in Hong Kong, and many are small, and require and deserve every help we professionals can give.”



For NGOs, the six common audit findings are:

- (1) slow response to service demands;
- (2) inadequate or inappropriate usage of assets;
- (3) inadequate coordination between bureaus/ departments;
- (4) non-compliance with rules and regulations;
- (5) incorrect or inadequate reporting or disclosure of key performance indicators; and
- (6) governance (attendance, conflicts, expenses)

Initiatives for good

Since 2016, the Institute’s CPA for NGO programme has launched two initiatives, Pro-bono advisory service to NGOs and NGO Treasurers’ Club Workshop Series, to further support NGOs in strengthening their financial system and reporting, reserve policy, internal control, and governance for achieving sustainable development.

The Pro-bono advisory service to NGOs pairs two Accountant Ambassadors with each NGO for six months to offer free face-to-face advisory sessions focusing on advising them on governance and financial management issues. “Through the process, we collect feedback which we use to inform the programme of common issues faced by NGOs, so that we can refine our service and become more effective in offering relevant advice, which in turn benefit the

NGOs,” says Richard Tse, Chairman of the Hong Kong Institute of CPAs’ Community Services Working Group and Co-founder of the CPA for NGO programme. “This allows us to publish guidebooks that address common issues, which are distributed widely to benefit even more NGOs.”

NGO Treasurers’ Club Workshop Series is a series of six workshops that aim to equip NGO board members, especially honorary treasurers, with the relevant knowledge needed to discharge their duties relating to financial management, budgeting, auditing and governance and accountability, explains Tse.

“Most NGOs cannot afford hiring a CPA who can identify potential risks, and honorary treasurers are often not financially trained but yet have financial oversight responsibilities. By equipping the gatekeepers, we are helping the NGOs address the issues before they became problems.”

HIGH VALUE CAREER

Kelvin Wong, Chief Financial Officer at Telligent Capital Management, talks to [Nicky Burridge](#) about the career investments he has made, and why China's hedge fund industry is a growing force

Photography by Calvin Sit

Ask Kelvin Wong what the key to success is and he will tell you it is failure. This may sound strange coming from someone who became the Chief Financial Officer at Hong Kong-based hedge fund manager Telligent Capital Management within eight years of leaving university, but Wong believes failure is often the biggest asset people can have.

“If you don’t dare to fail, you don’t dare to learn,” he says. “People like to read books about other people’s success stories, but the way to learn is from other people’s failures. There are not too many books that talk about failure, though.”

Wong, a Hong Kong Institute of CPAs member, describes himself as coming from a humble background. His father was a dim sum master

in a restaurant, and his mother a housewife. He grew up on a public housing estate, and, as an only child, admits he was slightly spoiled.

He did not really knuckle down to his studies at secondary school, and consequently got poor results in one of his Hong Kong Certificate of Education Examinations. It was a hard lesson. “I had to take the exam again. That was my first turning point,” he remembers. “If you are

“If you are given a second chance, you must grab on to it. Changing your attitude is the most important thing.”

given a second chance, you must grab on to it. Changing your attitude is the most important thing. Once your attitude changes other things will follow.”

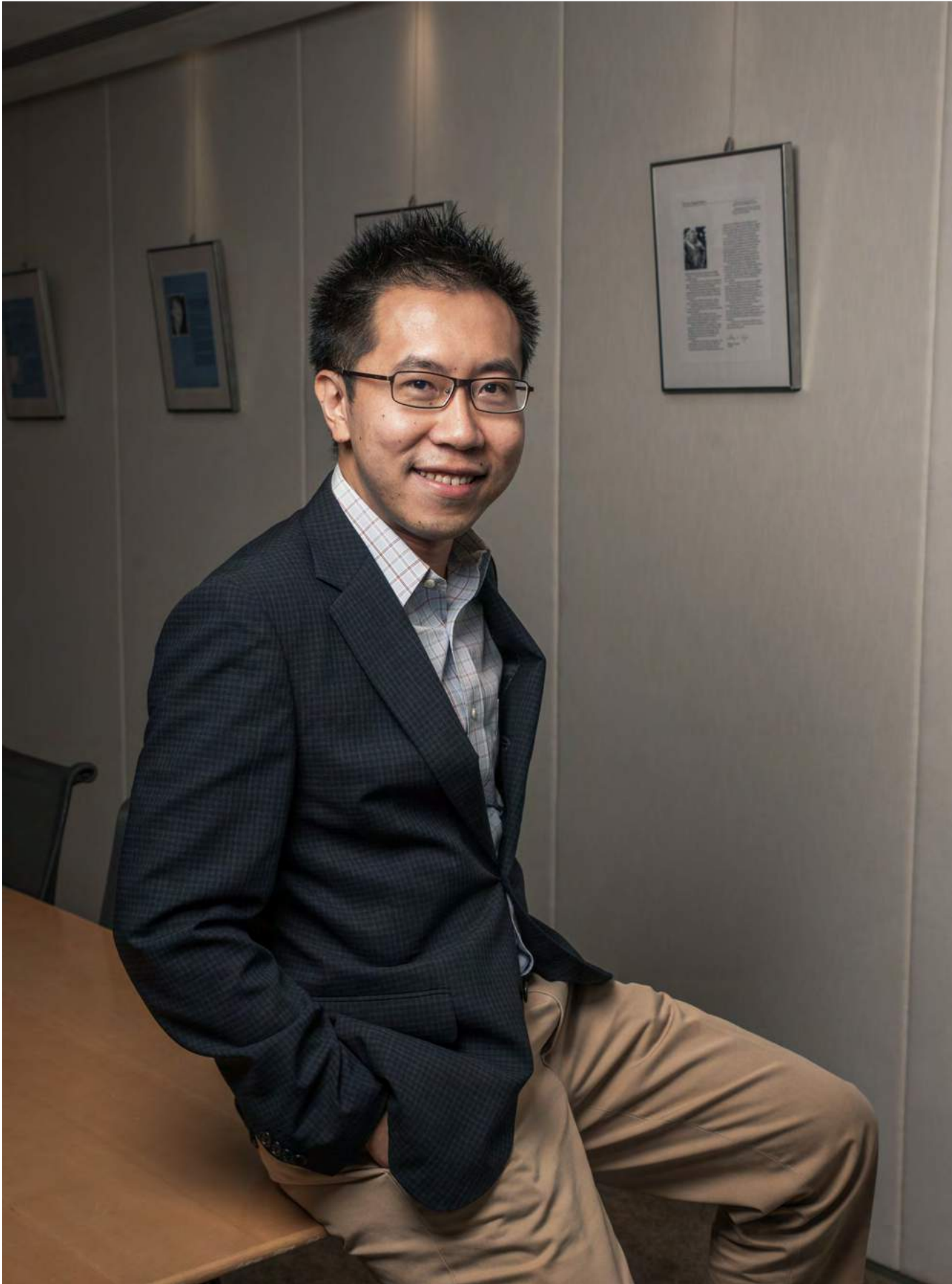
Wong retook the exam and this time achieved an outstanding result, enabling him to secure a place at the Hong Kong University of Science and Technology Business School, majoring in marketing and finance. He enjoyed marketing very much, but after a summer spent working abroad in Florida, he decided to go into auditing, rationalizing that over the course of a 40-year career, your first job would not matter that much. “I didn’t really know what accounting was, but I knew it was important, and that is why I joined Deloitte as a junior accountant. When I look back, it was the right move,” he says.



Kelvin Wong was hired by Telligent Capital Management as financial controller after spending five years working at Deloitte.

Success ingredient

Kelvin Wong



Detail driven

Working for Deloitte had two major impacts on Wong's life. It enabled him to become a qualified CPA and it is also where he met his wife. He was placed in Deloitte's global financial services team, with clients that included banks, insurers and securities companies.

"I wanted to explore as much as I could and not just focus on one thing," he says. "People talk about work-life balance but at that early stage it is difficult. At the end of the day, if you love your job and what you do at work, there is no line between the two.

If I was doing it again right now it would be tough because I am getting older, but back when I was 22 or 23, I would start at 8 or 9 a.m., and finish at 3 or 4 a.m. after a few drinks at the bar."

One of the key things Wong learned at Deloitte was the importance of attention to detail. "I was a big-picture person, but I learned to get into the details and this has turned out to be a great asset," he says. "You can't only be one-sided. Both perspectives matter when you make a decision."

Wong spent five years with the firm before deciding in 2010, right before he was due to be promoted to manager, that he would like to take on a new challenge. He interviewed for the post of financial controller at Telligent Capital Management.

To secure the job, he went through eight gruelling rounds of interviews. His status as a CPA, he says, helped him finally land

"At Deloitte, everyone was a CPA and I didn't think it was special, but you don't often see CPAs in the investment world."

the job. "At Deloitte, everyone was a CPA and I didn't think it was special, but you don't often see CPAs in the investment world," he says. "The CPA qualification gives you substance, and the accounting mindset gives you a sensitivity to numbers."

Wong had to get used to a different style of working. "At Deloitte the structure already existed, and you were one person in the system. Telligent has a more dynamic and entrepreneurial approach, so everyone is given room to express new ideas and take on more responsibilities."

After three years as financial controller, Wong was promoted to CFO. "I believe in substance more than title, and substance means you prove yourself," he says. As financial controller, his main role was to make sure the business operations ran smoothly, looking after areas such as accounting, tax and legal compliance. "After being promoted, I have to ensure that we are on top of all operational issues, maintain a robust operation environment, and also act and think strategically, and

deliver insights to the top management, helping them grow the business. As a CFO, I have to be forward thinking and be in charge of more strategic responsibilities. I have to think about the next five, 10 and 15 years plan of the company," he says.

Telligent, which was founded in 2003 and is managed by professionals with decades of Asia investment experience, has a team of more than 15 people in Hong Kong, many of whom are freshly hired from university and trained up internally. Wong encourages a culture of curiosity. "If there is something that interests you, it should drive you 100 percent. If you fail or do something wrong, we don't blame you," he says. "Young people have a lot of potential. One of the lessons I have learned is that I shouldn't create too many boundaries for young people. They can do a lot of things."

As well as developing its own people, Telligent is increasingly using technology in its non-investment decisions. "People talk about artificial intelligence and machine learning a lot now, but even before that, in our world, we utilized a lot of technology," Wong says. "We use technology to streamline the processes and minimize human error, as well as to try to extract human bias from decisions."

China's growing importance

Telligent is focused on the Greater China region, looking for opportunities that arise out of growth and inefficiencies in the market.



China-focused hedge funds lost 4.4 percent on average in June, the biggest drop since January 2016, according to hedge fund database provider Eurekahedge.

Wong thinks Mainland China will play an increasingly important role for investors going forward. “As China’s economy continues to grow, there will be increased demand from investors for China-focused opportunities. Many institutional clients are now looking at China possibly as a stand-alone investment market beyond their emerging market exposure,” he says.

He thinks China’s hedge fund industry is also catching up with other regions. “I see a lot of industry players from the United States and other markets opening shop in Mainland China. Hedge funds used to be just European and American, but now there are Chinese ones. I think it is good for the whole industry. There are now more players and additional voices. It helps the industry develop in a positive way.”

He also thinks initiatives such as Stock Connect – where investors in Mainland China and Hong Kong markets have direct access to each other’s stock markets – are beneficial as they enable Chinese companies to gain international exposure. “You will see China playing a vital role in the markets,” he says.

Giving back

Wong has always felt it was important to give back, and says one of the most rewarding moments of his career was when he was given the opportunity to take part in disaster relief efforts following the 2008 earthquake in Sichuan. “My university mentor was the chief executive officer of World

“Hedge funds used to be just European and American, but now there are Chinese ones. I think it is good for the whole industry. There are now more players and additional voices.”

Vision Hong Kong [a Christian humanitarian organization] and he invited me to help with the Sichuan project.”


Wong remembers really wanting to take part, but he did not have enough annual leave left and it was also the peak audit season. He sent an email to Deloitte’s partners, including Institute President Eric Tong, pointing out that as the firm always spoke about social responsibility, it would be great if the firm allowed him to go to Sichuan. Two days later, he was given permission. “I have to say thank you to Eric and my teammates again. My teammates told me to just go ahead and they would cover for me,” he recalls.

Today, Wong continues to give back, now to the profession and to Hong Kong. He has been a facilitator for the Institute’s Qualification

Programme workshops on corporate financing, and he recently joined the “Rich Kid, Poor Kid” programme, under which Accountant Ambassadors visit schools to teach money management skills to children. “I think as an accountant, kids respect what we say. I think we need more education about money in Hong Kong. We have to make sure the next generation does not see success as equalling money, and money as being everything,” he says.

Wong also takes part in the Institute’s Mentorship Programme which he considers to be very important, following his own experience with a mentor. “I don’t see it as giving back because I learn more than I give,” he says.

Alongside his work and volunteer activities, Wong also leads a busy family life. His oldest son is two-and-a-half years old, while his youngest son was born just last month. He describes himself as a hands-on father, who gets up in the middle of the night to change his son’s nappies. Being a dad and working at Telligent has its similarities, he notes. “The philosophies behind parenting and coaching young people are the same. You have to listen to the baby and think from his or her perspective,” he says.

Being a new dad again, of course, does not leave much time for anything else outside of work. “If we had had the *A Plus* interview in May, I would still have had two hours’ spare time, but now that is all gone,” Wong jokes. 

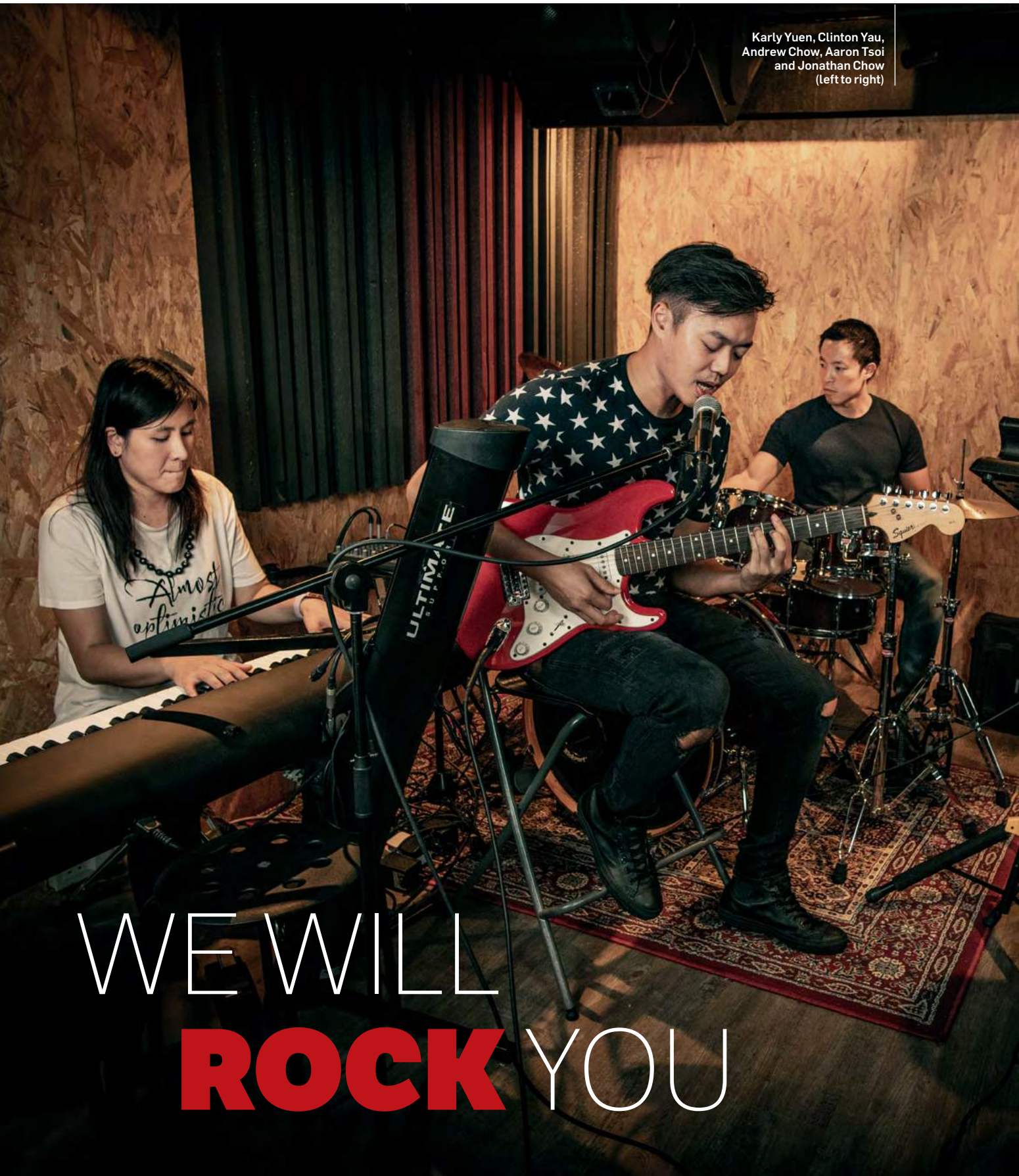
Wong is an Accountant Ambassador, who visits schools as part of the Institute's "Rich Kid, Poor Kid" programme.



Work and life

Rockin' out

Karly Yuen, Clinton Yau,
Andrew Chow, Aaron Tsoi
and Jonathan Chow
(left to right)



WE WILL
ROCK YOU



Finding time to rock out with your bandmates after work can be tricky. Four Institute members who are part of the pop-rock cover band The Opinion talk to **Jeremy Chan** about how they maintain their musical lives, and the steps they take to put on a memorable live show

Photography by Calvin Sit

“It’s very hard to find people to play music, especially in Hong Kong. Everyone’s busy,” says Jonathan Chow. As Chief Financial Officer of Yuk Wing Group Holdings, a listed company in Hong Kong, Jonathan himself is busy, but his passion for music drove him to form a rock band called The Opinion. “It’s hard to find people who like the same music as you, and it’s even harder to find them at the right time. So, if you do, get them together, get into a band room and start playing,” he says.

Named after the accounting term, the seven-piece band was formed four years ago. They have played at three Institute annual dinners and a charity event. Although they are occupied with their jobs and families, the Institute members in the band are driven by their passion for music to find ways to meet up for practice sessions, and prove that CPAs know how to rock.

Jonathan wouldn’t let work or becoming a newlywed get in the way of plugging in his bass guitar. At the start, the band consisted of himself, his younger brother Andrew Chow on drums, his university friend Jay Lo on guitar and then-colleague Karly Yuen on keyboards. He met the other three members at PwC, where they all worked, during the firm’s Annual Dinner Talent Show in 2013. “I saw this guy on stage by himself, playing guitar,” he says, referring to Clinton Yau, who would soon become the band’s second guitar player. “And I knew if we needed a band, he would be the one to call.” Jonathan also met their lead singer Connie Lai, who sang onstage that night. “She sounded great. When we decided to form the band, we asked her if she was

“Most of us worked at the same accounting firm, and we all loved music so when we decided to do something together, the bond was already there.”

**Jonathan Chow
plays bass guitar**

**Andrew Chow
on drums**



interested in joining, and she just said yes,” he recalls.

After rehearsing, the band wanted to add an electronic edge to their overall sound. Yau, now APAC Trade Compliance Manager at Google and an Institute member, knew just the guy. He approached his friend Aaron Tsoi, Senior Associate at PwC and a part-time DJ, to join the band as a synth keyboardist. “Aaron’s into all these synthesizers, and we thought it would be special to have that in our band,” says Yau. “Most of us worked at the same accounting firm, and we all loved music so when we decided to do something together, the bond was already there,” adds Jonathan. With the team assembled, they had to find shows to play.

Finding a middle ground

The band shifted into gear after they were asked by the Institute’s Annual Dinner Organizing Committee in early 2014 to perform at the annual dinner. With all members coming from musically different backgrounds, it was the group’s first challenge. “It’s really quite a pain to select songs,” says Jonathan. “We try to fit in everyone’s tastes.”

In the end, they walked a fine line between playing crowd favourites and songs they enjoy. “We knew most of the audience would be over 40, so we knew they would be familiar with music from the 60s, 70s, and 80s, so we played *I Saw Her Standing There* by The Beatles for our first show,” Jonathan says. “We also played Eric Clapton’s *Wonderful Tonight*, and Bon Jovi’s *It’s My Life*.”

Garnering a warm reaction from the audience, the band agreed to

perform more current songs for their next show the following year. “After our first show, we chose songs we wanted to do more, such as ones by Maroon 5,” says Andrew, Associate Director at investment bank UBS AG and an Institute member.

Yau says: “We still deliberately picked songs that the audience would easily connect with. We wanted people to have a good time.” The plan worked. The band at the Institute’s 2015 Annual Dinner played *Lucky Strike* by Maroon 5, and everyone danced along.

“Everyone has their own favourite songs, but one thing we’ve learnt working as professionals is that sometimes, you have to compromise.”

To come up with a final song list, the band would usually use their WhatsApp chat group to suggest and discuss potential songs, and take a vote. “Everyone has their own favourite songs, but one thing we’ve learnt working as professionals is that sometimes, you have to compromise,” says Andrew. “We want to have fun, even when we’re practicing a certain song,” Yau adds. “And we also want to make sure everyone has a role, and a time to shine with each song. It requires a lot of teamwork, so it’s tough.”

The end goal is to put on a praiseworthy performance, Yau says, explaining how they charm a tough crowd. “We want to appeal to members old and young, so we

play one to two older songs for each show, and a couple of newer songs. We normally start off and end with a well-known song – and by having a good opening and closing, people remember what we play.”

Show must go on

Every performance comes with technical issues, says the band, which they try to address in advance during the show’s soundcheck. “One challenge is the actual stage, and how that sounds,” Tsoi says. Sound technicians are responsible for ensuring live equipment is connected and faultless, and with delicate electrical connections plugged between large speakers and amplifiers, one faulty connection can spell doom. “This is something you can’t really control until the day of the performance,” he explains.

“The guitar always experiences complications because of the wiring to the amplifiers – if one piece of your equipment isn’t working, your entire set-up doesn’t work,” says Yau. Jonathan agrees. “At our last show, I think my amp just, popped,” he laughs. “There was no sound. You would normally plug your bass into the bass amp, which is connected to the direct input, and then to the sound guys. But the bass amp popped. I didn’t know what happened, but the sound guys were very professional, and provided a swift response by plugging my bass straight into the direct input.”

To Andrew, the biggest issue is when the monitor amplifiers don’t work correctly. “If I can’t hear anything, I have to really do my best to not play out of sync, because once the drummer messes up the beat, the rest of the band starts to go out of sync – that happened for a few seconds during our last show.”



Members who are interested in music, singing and live performances can join the Institute’s Singing Interest Group. More details are available on the Institute’s website.

“No one really expects normal, day-to-day people like us to know how to do other things, such as play the guitar, bass, drums or even sing.”

Under the spotlight

A love of music helps Andrew deal with stress. “We all know accountants in Hong Kong work long hours. Instead of popping open a bottle of wine or going for a run, try playing and listening to more music.”

Tsoi enjoys the sense of collaboration that naturally comes with being part of a band. “You have this synergy between you and your band members – such as knowing when the next change is, or when the next chord is coming.” Yau also feels that being part of something bigger has inspired him to continue his own musical journey, amid his hectic work schedule. “I’ve been so busy, especially the last two to three years. It felt like there was no time, and I found myself playing less and less music,” he admits. “That’s why I really appreciate this band so much – it almost forces me to pick up a guitar and play.”

The band also find that playing at company events sheds a light on the hidden talents of CPAs. “No one really expects normal, day-to-day people like us to know how to do other things, such as play the guitar, bass, drums or even

sing,” Andrew says. “But once you’re on stage, people say ‘wow! you know how to play an instrument?’ You also meet people who tell you ‘actually I play the guitar too – let’s jam together some time.’ It still happens where I work now.”

Jonathan adds: “before we played our first show in 2014, no one ever saw us play, or even knew we played music,” he says. “People don’t see you the same way again once they discover you play music, and I think that’s very interesting.”

No excuses

In 2015, the band played Charisound 2015, a charity event for Médecins Sans Frontières, organized by the Junior Chamber International Island, which featured various bands from professional bodies in Hong Kong. Based on that experience, the band believe there is no excuse and no shortage of

“That’s why I really appreciate this band so much – it almost forces me to pick up a guitar and play.”

Clinton Yau plays guitar and sings backing vocals



professionals who want to rock out after work. “Clinton and I also play in another band – we have two CPAs, three lawyers, a surveyor, a dentist and a doctor,” Jonathan says. “We play mostly Canto-pop and Canto-rock, and some Brit-rock like Radiohead. It’s a very fun group.”

Music also acts as the perfect icebreaker for any occasion, even in business events and meetings.

“We want to expand our network, and meet other professionals with the same interests,” he adds. “Music is a great starting point.” His brother thinks the same. “We need more collaborations with other professional bodies, especially through music.”

The Opinion look forward to playing the Institute’s annual dinner later this year, and wish to see other CPAs form their own

band, and take to the main stage. “It’s always good to have new people play the annual dinner – if we played every year for the next 10 years, I think people would get bored of us,” Andrew jokes. “The audit firms are full of people, and I’m sure there are guitarists, bassists, drummers, and maybe even saxophone players – you just have to ask around.”



China Individual Income Tax reform – A complete modernization

Mona Mak and Kenneth Peh on the implications of the revised Individual Income tax regime

The National People's Congress of the People's Republic of China released draft amendments to the Individual Income Tax (IIT) law for public consultation from 29 June to 28 July. The overwhelming response rate of over 130,000 submissions received within one month is an indication that the public and various stakeholders have high awareness and interest in the proposed amendments. The key changes included in the draft are:

Principles and framework	<ul style="list-style-type: none"> • Change in the definition of "resident" for tax purposes • Consolidation of various categories of income into "comprehensive income"
Tax calculation and tax relief	<ul style="list-style-type: none"> • Introduction of additional itemized deductions • Broadening of the lowest three tax brackets of the progressive tax rate table • Increasing the basic standard deduction for comprehensive income and repealing the additional standard deduction
Reporting requirements	<ul style="list-style-type: none"> • Introduction of new annual tax reporting system • Introduction of tax clearance mechanism upon expatriation
Governance	<ul style="list-style-type: none"> • Fostering multi-sectoral collaboration and establishment of information exchange system between different government authorities • Introduction of anti-tax avoidance rules

If these proposals become effective, there could be substantial impacts on taxpayers. At the same time, implementation of the proposed amendments will bring changes to the tax exposures of almost all IIT payers and potentially bring more people into the tax net. Furthermore, there are also implications on the tax reporting mechanism.

Any implementation of the proposed amendments would therefore impact the existing IIT framework. While the China IIT law forms the backbone of the tax framework, interpretation and execution of the IIT law effectively relies upon sets of circulars issued by the tax bureaux from time to time. As a result of implementation of the proposed changes, some of these circulars will no longer synchronize with the revised IIT law. However, it is still uncertain how these circulars will be updated along with the revised IIT law, or, for some circulars, be abandoned. Notable examples of circulars likely to need amendment or removal include preferential tax treatment on bonus and equity income, time apportionment claim, and the "five-year" rule.

If the amendments are approved, the new IIT law should become effective on 1 January 2019, although some measures will take effect as early as 1 October 2018.

In this article, the implications of the revised IIT regime for the following stakeholder groups will be discussed:

1. Local Chinese employees
2. Foreign employees working in China
3. High net worth individuals
4. Employers

Local Chinese employees

Until now, IIT calculations on employment income are still a rather mechanical exercise performed by the employers, where the employers also act as withholding agents for tax reporting and payment purposes. Taxpayers' personal circumstances and expenditures are rather irrelevant in the calculation. In order to promote social

fairness and increase equality in tax treatment, China introduced a tax preferential treatment on commercial health insurance contribution scheme in 2015, and tax deferral on commercial pension insurance contributions (pilot) scheme in 2018.

These schemes represented a new development in personal taxation, and formed the foundation of the personal tax relief introduced in these proposed amendments to the IIT law.

The proposed amendments also include the introduction of deduction for certain living expenses, e.g. child education, continuing education, medical expenses for critical illnesses, home mortgage interest, and housing rent. These items account for a significant portion of expenditure for the typical middle class taxpayer. More importantly, these new measures will bring personal circumstances into consideration when calculating the IIT liabilities of the taxpayer. Specific details of the deductions, such as eligibility of expenses and the amount of allowable deductions, are yet to be announced.

The proposals also include broadening the three progressive tax brackets, at the bottom end of the progressive rate tax table, for comprehensive income (which currently apply to salaries and wages only). This would effectively lead to tax savings for the majority of the working population.

The standard deduction for local Chinese will also be increased from RMB3,500 per month to RMB5,000 per month.

Broadly speaking, the proposed amendments bring positive impacts to local Chinese taxpayers as their IIT burdens will likely be reduced.

Foreign employees working in China

On the positive side, foreign employees can also enjoy the benefits of the broadening of tax brackets at the bottom end of the progressive tax rate table for comprehensive income, and the increased standard deductions from RMB4,800 to



RMB5,000 per month.

Changes to residency rule

Despite the above, there is potential bad news for foreign employees which may outweigh the benefits. Currently, foreign individuals spending a “full year” in China are regarded as China tax residents for the year. A non-China-domiciled individual is regarded as having stayed in China for a full year if he does not physically leave China for more than 30 days in one single trip or for more than 90 days cumulatively in the calendar year concerned. For this purpose, both the arrival and departure days are normally excluded from the counting of the 30/90 days thresholds and it does not matter whether the overseas days are for personal or business purpose. Practically speaking, most foreign nationals are considered as non-China-domiciled individuals. However, they will only be subject to worldwide taxation in China if they spend a “full year” after they spend five consecutive “full years” in China (known as the five year rule).

The definition of “full year” is therefore complicated. In short, a foreign individual will not be regarded as a China tax resident if he/she spends no more than 274 days in China in a calendar year. The proposed amendments shorten this window to 183 days. Foreign employees who work in China, especially those who work full-time in China, would easily become China tax residents according to the proposed amendments, even if they spend most of their weekends and holidays outside China (a common tactic for reducing tax liabilities).

We suspect that the five year rule will be removed so as to align with international practices, yet, the draft amendment is silent as to whether the five year rule would remain.

Example

Assuming that a Hong Kong employee is seconded to work in an entity situated in China for 4 days per week. He spends 208 days in China every year (4 days x 52 weeks). The tax authority has already agreed that he can pay IIT on a time-apportionment basis. With the implementation of the proposed amendments, he would become a China tax resident and be subject to IIT based on his entire employment income. If the five year rule is also removed, he will be subject to worldwide taxation in China, meaning that his other sources of income outside China (e.g. rental income, capital gains, dividends, etc.) could be subject to IIT.

Furthermore, according to the prevailing Hong Kong Salaries Tax rules, the individual could enjoy either a double tax relief pursuant to Section 8(1A)(c) of the Inland Revenue Ordinance or a foreign tax credit pursuant to the China-Hong Kong double tax arrangement, depending on his Hong Kong tax residency. Under either circumstances, relief will likely be limited to income attributable to his China work days. His income attributable to Hong Kong work days would then be subject to double taxation in China and Hong Kong.

To avoid unexpected double taxation, the Hong Kong employee and his employer should closely monitor the development

of the IIT law amendment. Once the IIT law is amended, they should promptly revisit the individual's tax residency status, travel patterns and staff deployment arrangements to ensure tax efficiency can be achieved.

IIT on fringe benefits

It is worth noting that the proposed amendments are silent on whether the non-taxable treatment for certain fringe benefits made to foreign individuals, such as housing benefit, child education, will be removed and replaced by the deduction of certain living expenses applicable to all residents receiving comprehensive income. The likelihood is that they will be removed as the favourable tax treatment is not consistent with the intention to treat local Chinese and foreign individuals equally.

High net worth individuals

High net worth individuals (HNWIs) in China tend to be business/asset owners whose main income streams are from dividends, profit distribution, and income from leasing or transferring properties. Though the proposed amendments do not change the IIT treatment of these income categories, the newly proposed general anti-avoidance rule (GAAR) may still impact HNWI. Taking the example of disposal of a business, instead of a direct disposal, the owner may enter into a series of transactions that are not on an arms-length basis, with the view to be taxed at a different rate or to take advantage of double tax treaty protections. The proposed GAAR may prompt the owner to reconsider whether the planned



transactions remain sustainable upon challenge.

Another observation is that these HNWIs often, at some stage in their life, consider migrating to another country/territory. As soon as they obtained overseas permanent residency, they could apply for the household registration (or Hukou) to be deregistered. With the tax clearance procedure introduced by the proposed amendments, these HNWIs will need to understand what this means to them, in particular any "dry tax charges" on unrealized gains at the time of expatriation.

Even if they successfully deregister their Hukou, their ties with China may not be entirely eliminated. Many of them would retain their businesses in China and would frequently travel to China to manage their business. With the change of residency rule mentioned above, their income may still fall into the China tax net if, for example, they become China tax residents due to the length of time spent in China.

Employers

The proposed changes to the tax reporting system are meant to reduce the tax compliance burden on employers acting as tax withholding agents for employment income. Under the proposed amendments for tax resident employees, employers are only required to withhold an estimated IIT in respect of their tax resident employees from their payroll on a monthly basis. This approach is in line with many other sophisticated tax jurisdictions, and might ease employers' workload when compared to requiring an accurate IIT withholding as is currently the case.

However, we suspect that the reality may be the reverse. With only the estimated IIT withheld, the tax authorities expect taxpayers to file annual tax reconciliation schedules and either pay or be refunded a true-up amount. If a taxpayer fails to meet the reporting requirement or paying the tax undercharged, it is much easier for the tax authorities to go after the employer rather than the employee. On the other hand, over-withholding is not preferred either in light of the complex procedures to apply for tax refund, if it is in fact at all possible in practice. Employers are also concerned that any alleged non-compliance will be reflected in the newly established social credit information system, which may negatively impact the company's reputation. Hence, we heard from many employers that they will take a wait-and-see approach and continue to withhold IIT on an accurate basis across the board.

What makes the IIT withholding process even more complex is the introduction of deductions for living expenses mentioned earlier. Taxpayers who wish to enjoy these deductions are required to submit the expense information to their employers as the withholding agent. This creates the requirement for a lot of communications between payroll/HR and their employees. Considering the already challenging monthly tax filing schedule, this additional workload will no doubt make the tax filing process even more challenging and time-consuming.

Companies should thoroughly review the developments in this area and any implementation guidelines. It may also

become necessary to outsource the tax reporting function or to hire additional staff to meet the forthcoming changes.

Conclusion

This is the most comprehensive and forward-looking IIT law amendment since 1993, providing China with a sophisticated IIT framework. The implementation of the changes will be a challenge given the breadth and depth of these changes. With over 130,000 responses to the consultation, we suspect that implementation rules and supporting circulars will only be issued in phases. In other words, taxpayers and withholding agents will likely need to live with certain risks and uncertainties at the beginning of the rollout. Companies should consult tax professionals and keep abreast of the development in this area.

Finally, the IIT law amendment is good news to some, and not so promising for others. However, most would agree that the amendment does address the call of equality between local Chinese and foreigners, as well as differentiation among taxpayers with different personal circumstances.



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Deloitte Advisory
(Hong Kong)

TechWatch 190

The latest standards and technical developments

Meeting minutes

Financial Reporting Standards Committee

Summary of the 243rd meeting of the Financial Reporting Standards Committee is now available.

Hong Kong Insurance Implementation Support Group

The Hong Kong Insurance Implementation Support Group's 27 June meeting summary is now available.

Local updates

Meeting with delegation from the International Ethics Standards Board for Accountants

On 16 July, the Institute hosted a series of outreach meetings with representatives from the International Ethics Standards Board for Accountants (IESBA).

Representatives from the Institute's Ethics, Small and Medium Practitioners (SMPs), and Professional Accountants in Business Committees and the investor community exchanged views on public interest topics, including the levels of independence between audit and non-assurance services, and professional skepticism applied by accountants and auditors. The IESBA Revised and Restructured Code, its future strategy and work plan were also discussed.

Invitations to comment

The Institute is seeking comments on:

- International Federation of Accountants' (IFAC) International Auditing and Assurance Standards Board (IAASB) Exposure Draft

Proposed International Standard on Auditing (ISA) 315 (Revised), Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs by 2 October 2018.

- International Accounting Standards Board (IASB) Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity* by 9 November 2018.

Institute's submitted comments

The Institute commented on the IESBA Discussion Paper *Proposed Strategy and Work Plan 2019-2023* and the European Commission's Fitness Check on the EU Framework for Public Reporting by Companies.

International updates

IFRS updates

- July IASB Update.
- Webcasts on the IASB Discussion Paper *Financial Instruments with Characteristics of Equity*.
- Webcast on IFRS 9 *Financial Instruments*.
- IFRS 17 *Insurance Contracts* educational materials on reinsurance contracts held.

Professional accountants in business

The board's role in promoting an ethical culture

The article entitled *The board's role in promoting an ethical culture* examines how boards can encourage ethical

behaviour throughout a company by prioritizing corporate culture, watching for red flags, and setting clear expectations. Emphasis is placed on the importance of ethics and best organizational culture which may drive higher average return on assets, as well as the board's involvement in promoting an ethical culture.

The article also provides 10 recommendations that may drive organizational culture.

Small and medium practitioners

IFAC updated practical support and guidance for small business audits
SMPs may require practical support when implementing ISAs in audits of small- and medium-sized entities (SMEs). IFAC has updated the *Guide to Using ISAs in the Audits of SMEs, Fourth Edition* to help SMPs efficiently and proportionally apply ISAs on SME audits.

This guide reflects recent changes to the ISAs including IAASB projects on: auditor reporting; disclosures; the auditor's responsibilities relating to other information; and using the work of internal auditors.

Volume 1 of the guide covers the fundamental concepts of a risk-based audit in conformance with ISAs, while Volume 2 contains practical guidance on performing SME audits, including two illustrative case studies – an SME audit and a micro-entity audit. SMPs may use the guide for training purposes and as the basis for firm manuals.

IFAC has also updated the Companion Manual to provide practical "best use" suggestions for the Guide.



Corporate finance

SFC consults on amendments to anti-money laundering and counter-terrorist financing guidelines

On 5 July, Securities and Futures Commission (SFC) launched a consultation on proposals to amend the Guideline on Anti-Money Laundering and Counter-Terrorist Financing to keep it in line with international anti-money laundering and counter-financing of terrorism standards and make it more useful and relevant.

SFC proposes to expand the types of politically exposed persons to include customers who have been entrusted with a prominent function by an international organization. It also proposes to streamline the identification and verification processes for on-boarding customers to allow flexibility for licensed corporations to adopt reasonable risk-based measures and determine the extent to which each individual's identification information would need to be verified.

Licensed corporations may use appropriate technology for non-face-to-face account opening if they can ensure and demonstrate that there are adequate safeguards against impersonation risk.

Amendments to takeovers rules

On 13 July, the SFC released consultation

conclusions on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs (Codes) which are applied with immediate effect.

Measures to enhance investor protection include empowering the Takeovers Panel to require compensation be paid to shareholders who have suffered as a result of a breach of the Codes and increasing the threshold for independent shareholder approval of a whitewash waiver to 75 percent. Other changes include amendments to clarify the power of the Takeovers Executive, the Takeovers Panel and the Takeovers Appeal Committee to issue compliance rulings and that persons dealing with them must do so in an open and cooperative manner.

HKEX defers corporate weighted voting rights beneficiary consultation

On 25 July, Hong Kong Exchanges and Clearing (HKEX) announced that it would not launch a consultation on a proposal to allow corporate entities as weighted voting rights (WVR) beneficiaries in late July as initially planned.

Given that the current WVR regime has only recently been put in place, HKEX believes that it should deliberate further the extended WVR regime and should continue to engage with relevant stakeholders in order to develop a broader

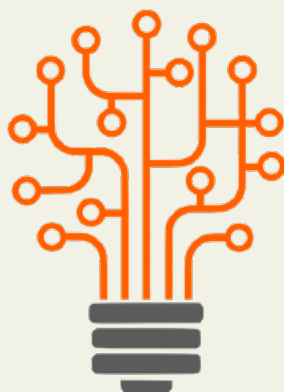
consensus on the subject matter.

Corporate governance

HKEX consultation conclusion on Corporate Governance Code and Guidance for Boards and Directors

The HKEX published consultation conclusions on its Corporate Governance Code and related Listing Rules in relation to board procedures and diversity, roles of independent non-executive directors (INEDs); and transparency on dividend policy on 27 July. The HKEX also published the Guidance for Boards and Directors on the same day.

Amendments to the Code and related Listing Rules had been put through to reflect the new measures. With effect from 1 January 2019, the board will need to explain why they consider a candidate could still devote sufficient time to serve the board as an INED when the candidate is holding directorship for more than six listed companies. The board is also required to explain in a circular what the nominated INED is expected to bring to the board in terms of skills and experience. Moreover, introduction/extension of the cooling off periods for professionals or individuals which have had material interests in the issuer's principal business activities



before they can be considered as independent and be qualified as a member of the board is also included in the revised Code and related Listing Rules.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Gazettal of Inland Revenue (Convention on Mutual Administrative Assistance in Tax Matters) Order, allowing Hong Kong to effectively implement the automatic exchange of financial account information in tax matters and the Base Erosion and Profit Shifting (BEPS) package promulgated by the Organization for Economic Co-operation and Development (OECD).
- Gazettal of Inland Revenue (Amendment) (No. 6) Ordinance 2018, primarily implementing the minimum standards of the BEPS package promulgated by the OECD and codifies the transfer pricing principles into the Inland Revenue Ordinance.
- Frequently asked questions on technical explanations about Automatic Exchange of Financial Account

Information.

- Stamp duty statistics (June 2018).

Institute's recent tax submissions

The Institute's Taxation Faculty has responded to Inland Revenue (Amendment) (No. 5) Bill 2018 and to the Proposed Amendment to People's Republic of China individual income tax law.

Legislation and other initiatives

Anti-money laundering notices

Members should note the following notices and publications in relation to anti-money laundering and counter-terrorist financing:

- Government notice (extraordinary) 37: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- The revised Guideline on Exercising Power to Impose Pecuniary Penalty in respect of Anti-Money Laundering and Counter-Terrorist Financing (GL3A) has been published in the Gazette (G.N. 207 of 2018) on 29 June to reflect the enactment of Anti-Money Laundering and Counter-Terrorist Financing (Financial Institu-

tions) (Amendment) Ordinance 2018 and make corresponding amendment to the title of "Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance" mentioned therein to "Anti-Money Laundering and Counter-Terrorist Financing Ordinance" (Cap. 615).

- High-risk and other monitored jurisdictions: the Financial Action Task Force's process to identify jurisdictions with significant weaknesses in their anti-money laundering and counter-terrorist financing measures and its work with these jurisdictions to address these weaknesses.
- Specially designated nationals and blocked persons list, published by the United States Treasury's Office of Foreign Assets Control.



Please refer to the full version of TechWatch 190, available as a PDF on the Institute's website: www.hkicpa.org.hk

After hours

Book review Life and everything Let's get fiscal

Book review



Leaving the lights on

Title: **Enlightenment Now: The Case for Reason, Science, Humanism, and Progress**
Author: **Steven Pinker** Publisher: **Penguin Random House**

The 18th century, at least in Europe, is regarded as akin to an intellectual sunrise, where slowly but surely the world of magic, superstition and religion were increasingly complemented, if not replaced, by scientific inquiry, political discourse and an understanding of the philosophical underpinnings of human nature.

The great European universities – from Leiden to Göttingen, and Uppsala to Edinburgh – nurtured first-class thinkers such as John Locke, Rene Descartes, Immanuel Kant, Isaac Newton, Mary Wollstonecraft and Voltaire, who changed the way we look at ourselves and our world.

Although much of science and mathematics was rooted in earlier work performed in the Arab world, India or China, it was Europeans, it seemed, who put the pieces of the puzzle together and accelerated human knowledge in what is known as the Age of Enlightenment.

A modern day thinker on a global

scale, the Canadian cognitive psychologist Steven Pinker has essentially written a tribute to that age with his latest book, *Enlightenment Now: The Case for Reason, Science, Humanism, and Progress*. The legacy of that age, he argues, is that we are now healthier, richer and safer than we have ever been.

In a way, *Enlightenment Now* is a sequel to Pinker's 2011 bestseller, *The Better Angels of Our Nature: Why Violence Has Declined*. In that controversial book, Pinker linked a more peaceful world to the development of the modern nation state, yet appeared to ignore the many examples of strong central authorities encouraging rather than inhibiting mass violence.

Enlightenment Now is similarly sweeping: its central thesis is that life has improved. Pinker addresses a list of human conditions from progress (and “progressophobia”) to health, wealth, inequality, the environment, public safety

(including terrorism) and democracy. There are further diversions into quality of life, happiness and existential threats. He also roots principles increasingly discussed now such as social equality, racial integration and women's rights, in the Enlightenment. Yet today, race relations in many countries have a headline-generating fractiousness, and while the Enlightenment did provide a platform for many women of different social classes, gender equity would remain elusive for another two centuries.

The world outside Europe and America barely gets a mention. Hong Kong is praised only for its “secularization” – the tenet of social science that “irreligion is a natural consequence of affluence and education.” China is noted chiefly for its early errors: Mao Zedong is pilloried for the Great Leap Forward and its “screwball agronomic practices” and neither Deng Xiaoping nor Xi Jinping rate a mention.

Citing China as an example, Pinker

Author interview: Steven Pinker

observes, “Market economies can generate wealth prodigiously while totalitarian planned economies impose scarcity, stagnation, and often famine.” Market economies, he adds, solve the problem of coordinating the efforts of hundreds of millions of people by using prices to propagate information about need and availability.

The Better Angels of Our Nature established Pinker as the “Great Optimist” of human psychology and this book continues the trend. But he notes many people are pessimistic about their future, citing a YouGov poll in 2015 that showed majorities in 14 major countries and territories, including United Kingdom, the United States, France and Hong Kong, thought the world was getting worse. China was the only country in which more respondents said the world was getting better.

He dismisses these notions as “negativity bias,” using psychology jargon. “Two other illusions mislead us into thinking that things ‘ain’t what they used to be,’” Pinker writes. “We mistake the growing burdens of maturity and parenthood for a less innocent world, and we mistake a decline in our own faculties for a decline in the times. As the columnist Franklin Pierce Adams pointed out, ‘Nothing is more responsible for the good old days than a bad memory.’”

Written after the Brexit vote in the U.K. and the election of Donald Trump, the book shrugs off new threats to the general march of progress. Without demonizing Trump and other politicians who lean towards authoritarian populists, Pinker cautions against leadership cults. “By valorizing a strong leader, populism overlooks the limitations in human nature,” he writes, “and disdains the rule-governed institutions and constitutional checks that constrain the power of flawed human actors.”

Steven Pinker is a natural optimist, and in a public setting, he beams with hope. As a cognitive psychologist, he understands the human tendency towards despair. “From time to time we all ask some deep and difficult questions,” Pinker tells an audience in Washington, D.C. “Why is the world filled with woe? How can we make it better? How do we give meaning and purpose to our lives?”

He has come down from his usual domain, Harvard University, near Boston – where he is Johnstone Family Professor of Psychology – at the behest of the Cato Institute, the conservative think-tank in Washington, D.C., to give a lecture as part of his promotion of his book.

While Pinker eschews a traditional religious affinity – he has long identified himself as an atheist, but believes institutional religion can be a force for good – he suggests going back 250 or so years rather than 2,000 to find an appealing orthodoxy.

“Many of us are pretty clear on what we don’t believe in, but it’s harder to articulate a positive vision of what we do believe in,” he says. “In *Enlightenment Now*, I suggest that there is such a positive vision – an alternative system of beliefs and values.”

That vision is the Enlightenment, the rapid flowering of scientific, philosophical and cultural knowledge, centered in Western Europe, that fuelled everything from steam engines to democracy. Progress, it seems, is Pinker’s religion, who sees improvement by any metric, even meals. “The [current] abundance of calories could be considered a dubious form

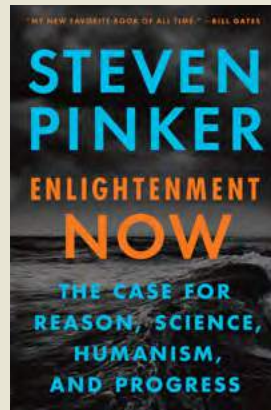
of progress if it simply made the fat fatter, but in fact the benefits have accrued to the bottom.

“In 1999, about 35 percent of the world’s population was subject to undernourishment,” he says. “That has been brought down to about 12 percent.”

Pinker acknowledges his Eurocentric worldview, but is unrepentant. The data back him up. “The first

regions to make the great escape from ‘universal poverty’ as [Nobel Memorial Prize laureate economist] Angus Deaton called it were Europe and the Americas,” he says. “But more recently, Asia has seen spectacular increases and Africa as well is catching up.”

Pinker says the world should not worry about China as the country becomes richer and more globally engaged. “Fears are largely misplaced,” he says. “It was when China was poor and insular that it started wars, and starved and brutalized its citizens.”



Life and everything

As recommended by *A Plus* editors

Eat



Seafood tagliatelle in saffron cream sauce with mussels

COMFORT FOOD

Dig into a succulent plate of homemade goodness at Italian pasta bar Pici. Diners are served dishes designed by Andrea Viglione and handmade that day such as ravioli stuffed with rich gorgonzola, porcini mushrooms and mascarpone, seafood tagliatelle cooked with mussels, garlic oil and chili in a delicate saffron cream sauce, and garganelli served with duck ragu, cauliflower and Szechuan peppers. The restaurant opened the doors of its third branch in Tsim Sha Tsui this month, adding to its existing branches in Central and Wanchai.

Address: G/F, 29-31 Chatham Road South, Tsim Sha Tsui
Opening hours: 12:00 p.m. - 11:00 p.m. (Sun to Thu)
12:00 p.m. - 11:30 p.m. (Fri and Sat)
Phone: 2771-2231

Music



Brandon Flowers, vocalist

THE KILLERS LIVE

American rock band The Killers are set to perform in Hong Kong this September. Promoting their latest album *Wonderful, Wonderful*, the band are expected to play new numbers and crowd favourites such as “Mr. Brightside,” “Somebody Told Me,” and “When We Were Young.” The band last played in the city in 2013 as part of their *Battle Born* album tour.

Date: 19 September
Time: 8:00 p.m.
Venue: AsiaWorld-Expo, Arena
Ticket price: HK\$888
Website: www.hkticketing.com

Sweat

SCALE THE SUMMIT

The Lantau Vertical run is back for its third consecutive year, inviting runners to lace their best running shoes to scale the 934 metre-high summit of Lantau Peak. The 7 km ascent will take between an hour and three hours to complete. Organizers are offering three categories of entrants, enabling beginners the chance to climb at their own pace. With the path marked with yellow ribbons, the first 5 km is a slow ascent up Shek Pik Country trail, bringing participants to Wisdom Path. The last leg is a steep 2 km climb up Lantau Trail Section 3 with high stairs and breathtaking views, up to the finishing line at the top of Lantau Peak.

Date: 23 September
 Check in: 7:30 a.m.
 Starting times: 9:00 a.m. for Elite, 9:10 a.m. for Experienced and 9:20 a.m. for Explorer
 Venue: Shek Pik reservoir, Lantau Island
 Registration deadline: 15 September
 Website: www.lantauvertical.com



See

ENTER THE DRAGON



The Tai Hang Fire Dragon Dance will take place throughout the three-day Mid Autumn Festival. Made of straw, the 67-metre long model dragon will light up with over 24,000 burning incense sticks and be carried by over 300 men to the sound of drums and gongs. It will start at Wun Sha Street and continue through King Street, Sun Chun Street, Tung Lo Wan Road, and return to the starting point to add incense. Dating back 138 years, the tradition began with a plague following a typhoon that swept into the fishing and farming community of Tai Hang. The plague only disappeared after villagers made the Fire Dragon.

Dates: 23-25 September
 Venue: Tai Hang, Causeway Bay
 Times: 8:15 p.m. - 10:30 p.m. on 23-24 September, 8:15 p.m. - 10:00 p.m. on 25 September
 Website: www.taihangfiredragon.hk



Ancient tale hides a modern message

Hong Kong's humorist on how there are accounting lessons to be learnt, even in 2,400-year-old tales

Ding! A string of messages appears on my phone. "HSBC: A transaction (iTunes) of HK\$76 was recorded from your credit card," says each one.

Again, my children are spending REAL MONEY on imaginary items in games on Apple iTunes. I complain that pixels have no actual value, but they don't get it, and I retire to my desk, which is currently filled with books of folk tales.

As vital repositories of essential wisdom, ancient stories have real value. Without them, how would we know that girls should always kiss frogs, (surviving) pigs live in brick homes, and bears watch out for their porridge being stolen by mischievous blondes?

Folk tales are on the mind of the present writer, having been commissioned to compile a collection of them. Which is when an idea struck: why not research the question of whether there are any ancient stories about accountants?

Answer: Because that would involve actual work.

Plan B: Instead, a quick call was made to a literature professor at a university, who provided an instant answer. "Money-related items are one of the most common subjects of ancient wisdom tales," she said. She pointed out that Jesus told more parables about money than any other topic.

I start reading. In an ancient Buddhist document called *The Jataka Tales*, I found a story from India which seemed to be specifically about the first accountant, written 2,400 years ago – long before the iconic dark grey suit was invented.

The Price Maker

The King of Benares appointed a Price Maker to value items he bought and sold. The Price Maker was careful and honest, and the kingdom functioned smoothly as a happy place for many years.

But the King became greedy, and eventually replaced the Price Maker with a man who promised to bring in more money for the Royal Family.

Mr. Profit (for that was the new man's nickname) demanded huge fees for anything the King's household licensed, and paid low prices for anything it bought.

The King became richer – and the kingdom less happy.

One day, a horse trader arrived in Benares with a shipment of stallions.

"We will take all the horses," Mr. Profit said. "And send you a fair price." He arranged for a single cup of the King's rice to be delivered to the merchant.

The horse trader was horrified, and contacted the old Price Maker, who had retired quietly. The money man gave him an unexpected answer: "Send a nice thank-you gift to Mr. Profit and tell him you would like to learn more about the King's wonderful rice."

This the merchant did, and was invited to the palace.

Mr. Profit cackled with delight at how successful he had been, and arranged to meet the merchant with the King and the nobles in attendance. This would be the perfect chance to show off just how skillful he was.

At the meeting, the merchant asked: "Tell me more about the King's rice. How much exactly is it worth?"

"A small bag of the King's rice is

worth more than a palace," Mr. Profit enthused. "In fact, it is worth more than the entire kingdom of Benares and everything in it."

He expected the nobles to be impressed by his bravado.

But several laughed. "You have turned the kingdom into a joke," one said. Then they were all laughing.

Mr. Profit was humiliated.

The King was embarrassed. He sacked Mr. Profit, paid the merchant properly, and sent his servants to beg the Price Maker to return to the palace.

Happiness returned to Benares.

As you can see, this two-millennia-old tale is about the importance of prices matching valuations.

So where's the value in imaginary goods on games on Apple iTunes?

I found the answer in the newspaper two days later: Apple has just become the first trillion U.S. dollar company, the headline said. The commentators ask: "How did Tim Cook manage that?"

Ding! Another string of messages appears on my phone. "HSBC: A transaction (iTunes) of HK\$76 was recorded from your credit card," says each one.



Nury Vittachi

is a bestselling author, columnist, lecturer and TV host. He wrote three story-books for the Institute, *May Moon and the Secrets of the CPAs*, *May Moon Rescues the World Economy* and *May Moon's Book of Choices*

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