A+

Driving business success

Issue 12 / Volume 14 / December 2018

Plus:

Corporate governance
Views from Best Corporate Governance Awards winners

Profile
Confirmations Asia Pacific Chairman Tony Hallam

CPAs with a cause
Institute members on how they give back to the community


BREAKING THE MOULD


CPAs under 35 share the highs and lows of entrepreneurship

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

ISSN 1815-3380
9 771815 338008
HK$70.00

"The profession has a bright future ahead of it, with growing business opportunities and specializations, and I look forward to seeing how this age of Accounting Plus develops."

Dear members,

December means shorter days and lower temperatures, time with the family, and a new leadership for the Institute.

It has been my honour to be President this year, representing the profession and advocating for Accounting Plus – and for us all to think of ourselves as Accountants Plus. The profession has a bright future ahead of it, with growing business opportunities and specializations, and I look forward to seeing how this age of Accounting Plus develops.

I want to thank my two Vice-Presidents, Patrick Law and Johnson Kong, for their support and counsel. A successful presidency requires the strong backing of the rest of the leadership, and Patrick and Johnson have provided unfailing support to me. I want to also thank my fellow Council members for their unreserved dedication to the profession. I truly believe that our efforts have ensured there will be a successful future and that we have a number of achievements we can be proud of for the year.

For starters, the publishing of Council minutes for members to read was a key development to improve the transparency of the Council, so members can better understand how the Institute works for you. I urge you to regularly review the minutes. Secondly, the launch of the new website in November as the first phase of the Digital Strategic Plan, demonstrates the Institute's commitment to updating its digital presence.

We also led the development of Accounting Plus, recognizing the multitude of career opportunities available to the profession, and the chances our members have to make a difference to business, government and society every day.

Turning now to the celebratory and important events I have been involved in over the past month. It's been a productive year for the Institute in corporate governance – with the release of our substantial comparative study into corporate governance – and I very much enjoyed the experience of chairing the judging panel for the annual Best Corporate Governance Awards. With a range of new and return award winners, I was pleased to see the achievements of a wide variety of organizations demonstrating good corporate governance. The presentation luncheon held at the end of November, featured guest of honour the Permanent Secretary for Financial Services and the Treasury (Financial Services), Andrew Wong, JP, speaking on the importance of going beyond the minimum requirements and demonstrating excellent corporate governance.

On 3 December, the Institute's annual dinner was held, with the theme "Accounting Plus." Almost 600 members and guests explored the "tree" of possibilities available to us as accountants. We had a fun night of games and demonstrations of "Accountants Plus" in action – singing, dancing and strumming. The guest of honour Matthew Cheung, Chief Secretary for Administration, shared with us his views on the importance of accountants in Hong Kong's continued success.

One of my final tasks as President was to represent the profession at Polytechnic University's Belt and Road Cross-Professional Advancement Programme Inaugural Conference, held on 12 December. I spoke about the importance of the initiative for our profession, and the opportunities available in the age of Accounting Plus.

It's been a busy year but I am confident the "tree" will continue to grow and branch out, and our profession remains bright and positive.

Eric Tong
President and
Accountant Plus

Contents

Issue 12 / Volume 14 / December 2018

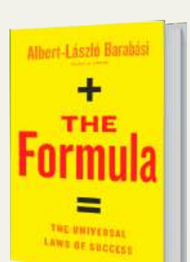
16

Confirming the future

Chairman of Confirmations Asia Pacific, Tony Hallam, on how technology continues to change the audit process, but won't replace accountants anytime soon

52

AFTER HOURS



Book review

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.

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

President Eric Tong

Vice Presidents Patrick Law, Johnson Kong

Acting Registrar Jonathan Ng

Editorial Manager Paul Smith

Editorial Coordinator Maggie Tam

Office Address
37/F, Wu Chung House, 213 Queen's Road East,
Wanchai, Hong Kong
Tel: (852) 2287-7228 Fax: (852) 2865-6603

Member and Student Services Counter
27/F, Wu Chung House, 213 Queen's Road East,
Wanchai, Hong Kong
Website: www.hkicpa.org.hk
Email: hkicpa@hkicpa.org.hk

M&L

Editor Gerry Ho
Email: gerry.ho@mandl.asia

Copy Editor Jemelyn Yadao

Editorial Assistant Jeremy Chan

Contributors Nicky Burridge, George W. Russell

Editorial Office
G/F, Bangkok Bank Building, 18 Bonham Strand West,
Sheung Wan, Hong Kong

ADVERTISING ENQUIRIES
Advertising Director Derek Tsang
Email: derektsang@mandl.asia
Tel: (852) 2164-8901

December 2018. Print run: 7,250 copies
The digital version is distributed to all 43,115 members, 17,665 students of the Institute and 2,358 business stakeholders every month.

MIX
Paper from responsible sources
FSC™ C139800

News

Institute news   Accounting news

Institute news

Institute elects 2019 leadership team

The Institute elected Patrick Law as President, and Johnson Kong and Nelson Lam, as Vice-Presidents for 2019 at its 46th annual general meeting on 13 December.

Law is Deputy Assurance Leader at EY Hong Kong and Macau, and has served on the Institute's Council since 2014. He was vice-president in 2017 and 2018.

He has been actively supporting the profession through his participation in many committees, including the Registration and Practising Committee, as Chairman, the Ethics Committee, as Deputy Chairman, and the Governance Committee and the Nomination Committee, as a committee member. He has also been involved in the Professional Conduct Committee, the Restructuring and Insolvency Faculty Executive Committee, and the Standards and Quality Accountability Board.

Kong, Managing Director of Non-Assurance Services of BDO, also joined the Council in 2014, and served as Vice-President in 2018. Lam is Founder of Nelson CPA and served on the Council from 2012-2017.

At the election, seven members were elected to serve for a term of two years, including Vice-Presidents Kong and Lam; Au Chun Hing; Au Ki Lun; Raymond Cheng; Jennifer Cheung; and Loretta Fong.

Existing elected members who will hold office for one more year until their two-year term ends are President Law; Fung Ling Yip; Lee Suk Yee; Leung Man Chun; Leung Man Kit; Roy Leung and Li Kin Hang.

For lay members, the government appointed Susie Ho and Theresa Ng for a term of two years from 1 December 2018. Two continuing government-appointed lay members, Vincent Chui and Wilfred Wong, will fulfil the second year of their terms.

Immediate Past President Eric Tong will hold office as a member of the Council until December 2019.

(From left) Eric Tong, Immediate Past President; Johnson Kong, Vice-President; Patrick Law, President; Nelson Lam, Vice President; Jonathan Ng, Acting Registrar.

Best Corporate Governance Awards 2018

The 19th Best Corporate Governance Awards handed out 23 awards, three more than last year, including to seven first-time winners. The awards presentation luncheon featured the Permanent Secretary for Financial Services and the Treasury (Financial Services), Andrew Wong, as the guest of honour. The full results and judges' report can be found on the Institute's website. Read interviews with two of the new awardees on page 10.

Macau CPAs join Guangdong-Hong Kong-Macau Alliance

The second meeting of Guangdong-Hong Kong-Macau Alliance firms, since its formation a year ago, was held on 10 December in Guangzhou. Almost 100 representatives met to welcome Macau CPA practices into the alliance. This was followed by a talk on the China-United States trade war. The Institute's Vice-President Johnson Kong led Hong Kong's 20-person delegation.

Rich Kid, Poor Kid wins award

The Institute's corporate social responsibility programme, Rich Kid, Poor Kid, was recognized last month by the Hong Kong Strategy for Financial Literacy as a "Financial Education Champion" for 2019. The award acknowledges the contributions and achievements of the Institute and its Accountant Ambassadors in offering high-quality financial education over the years. Since 2005, Accountant Ambassadors have visited more than 450 primary and secondary schools, and held over 750 free financial seminars, reaching more than 130,000 students in an interactive way, using their expertise to educate students on money management.

Council meeting minutes

The abridged minutes from the November Council meeting are now available for members to read. They can be found in the "Members' area" of the Institute's website.

Resolution by Agreement

Kung Wing Ting, CPA (practising) and Aries CPA & Co.

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, HKSA 500 *Audit Evidence*, HKSA 700 *Forming an Opinion and Reporting on Financial Statements* and HKSA 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements.*

Kung is the sole proprietor of Aries CPA & Co. which audited the financial statements of a private company for the period ended 31 December 2014 and the years ended 31 December 2015 and 2016. The respondents issued a disclaimer of opinion on the 2014 financial statements after identifying a limitation of audit scope on certain items. They failed to articulate why the limitation of scope on those matters indicated possible misstatements so material and pervasive that they were unable to form an opinion on the financial statements.

The respondents expressed unmodified auditor's opinions on the 2015 and 2016 financial statements but failed to obtain sufficient evidence to address inconsistent information about the principal activity of the company. As a result, they failed to obtain sufficient knowledge about the associated transactions and relevant disclosures in the financial statements. The respondents also failed to modify the auditor's opinions when the matters leading to the disclaimer of opinion in the preceding period remained unresolved.

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

1. The respondents 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$40,000 and costs of HK$10,000.

Ng Wai Kwong, Timothy, CPA (practising) and Timothy W.K. Ng & Co.

Complaint: Failure or neglect to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*, HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and HKSA 500 *Audit Evidence.*

The respondents audited the financial statements of a private company for the years ended 31 March 2013 and 2014. There were disputes between the client's directors which raised questions about the integrity of management. In the circumstances, the respondents failed to assess whether continuing the client relationship was appropriate. In addition, the respondents' reliance on a director's largely unsubstantiated representations demonstrated that they failed to obtain sufficient audit evidence to support the accounting treatment of a fixed asset in the 2013 and 2014 financial statements. They also failed to maintain professional skepticism by accepting that the 2014 financial statements were approved by the board when evidence indicated otherwise.

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

1. The respondents acknowledge the facts of the case and their non-compliance with the relevant professional standards;
2. They be reprimanded; and
3. They pay an administrative penalty of HK$20,000 and costs of HK$10,000 jointly.

Disciplinary finding

Lew Victor Robert, CPA (practising), So Kwok Keung, Keith, CPA (practising) and East Asia Sentinel Limited

Complaint: Failure or neglect by East Asia Sentinel Limited to observe, maintain or otherwise apply HKSA 700 *Forming an Opinion and Reporting on Financial Statements* and HKSA 230 *Audit Documentation.* Failure or neglect by Lew to carry out his work with professional competence and due care in relation to non-compliances resulting in the above breaches of HKSAs. Failure or neglect by So to diligently carry out the engagement quality control review in accordance with HKSA 220 *Quality Control for an Audit of Financial Statements.*

East Asia Sentinel Limited issued an unmodified auditor's opinion on the financial statements of a Hong Kong listed company, South East Group Limited (now known as China Minsheng DIT Group Limited) for the year ended 31 March 2009. Lew was the engagement director and So was the engagement quality control reviewer of the audit.

The Institute received a referral from the Financial Reporting Council (FRC) about irregularities in the audit. The company did not recognize a significant decline in the fair value of two listed, available-for-sale investments as an impairment loss in the financial statements, contrary to Hong Kong Accounting Standard 39. East Asia Sentinel Limited failed to detect this departure from accounting standards in forming the auditor's opinion.

Decisions and reasons: All the respondents were reprimanded. The Disciplinary Committee ordered the respondents to pay penalties of HK$55,000. In addition, the respondents were ordered to pay costs of the disciplinary proceedings of the Institute and the FRC in the total sum of HK$104,517.80. When making its decision, the committee took into account the circumstances of the case, including the particulars of the breaches, the respondents' personal circumstances and their conduct throughout the proceedings.

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

Baker Tilly revamps brand

Baker Tilly International revealed its brand refresh this month, including a new logo, colours and tagline – "Now, for tomorrow." Baker Tilly Chief Executive Officer Ted Verkade explained the meaning behind the new brand positioning: "We want the Baker Tilly brand to be synonymous with our commitment to building great relationships and having great conversations to ensure great futures." The new symbol is inspired by the organic growth patterns found in nature, he said. "It signifies our capacity to be agile and adaptable to the unique needs of our clients. The removal of the space between 'Baker' and 'Tilly' signifies our cohesive network." All member firms in over 130 territories will launch the new identity before 31 January 2019.

Illustration by Harry Harrison

Hong Kong listing rules threat to CG, says report

A joint report by the Asian Corporate Governance Association (ACGA) and brokerage CLSA released this month said that "the introduction of dual-class shares in Hong Kong and Singapore highlights a threat to that fundamental driver [of better corporate governance]." It also said that while a belief "in the value of transparency and accountability remains largely intact, the third principle, fairness, has come under fire." Hong Kong's listing rules changed in April to allow companies with dual-class shares to list, giving founders and key management stronger voting rights than other shareholders. The biennial report comprises a market-ranking survey carried out by ACGA on macro corporate governance quality in Asia-Pacific. It ranked Hong Kong second in the region.

Hong Kong government to pay towards audit reform

The Hong Kong government has agreed to provide HK$300 million in seed money for expanding the Financial Reporting Council (FRC) as part of Hong Kong's audit regulatory reform, the *South China Morning Post* reported this month. The money will enable the FRC, to triple its staff to inspect, investigate and discipline auditors in more than 2,000 listed companies, said FRC Chairman Kelvin Wong. He said he expected lawmakers to vote in March for reforms that would see the FRC become a fully empowered regulator overseeing all auditors of listed companies in the second half of 2019. The Hong Kong Institute of CPAs was the initiator of the audit regulatory reform before handing it over to the government in 2012 to prepare for public consultation and legislation.

BDO U.K. and Moore Stephens to merge

BDO in the United Kingdom will merge with smaller firm Moore Stephens, in a move that will create the U.K.'s new fifth largest accounting firm by revenue. BDO confirmed last month that it expects the merger to take place as early as spring next year. The deal will bring the new firm's annual turnover to £590 million taking over Grant Thornton, which recorded revenues of £500 million in the U.K. last year, *The Times* in London reported. BDO, however, will still be significantly behind fourth-place KPMG, which had around £2 billion in revenues in 2017 in the U.K.

U.K. Big Four face radical shake-up

Two reports released this month in the United Kingdom revealed proposals to promote more competition and toughen up supervision of the audit market, dominated by the Big Four. The plans reportedly marks the most ambitious attempt yet to reform the accounting profession in Britain. The report by the Competition and Markets Authority (CMA) revealed the interim findings of its audit market review. It proposed putting the Big Four's audit and advisory services into separate operating entities. It also proposed that audits of the U.K.'s biggest companies should be carried out by two firms, one of which should be from outside the Big Four. New laws would be needed to implement the CMA proposals. The other report, commissioned by Chairman of Legal and General Group plc John Kingman, who led a review into the Financial Reporting Council (FRC) said the audit regulator should be replaced by a new watchdog with new management, stronger powers and a clearer remit to serve consumers. Calls for the new regulator were welcomed by both the FRC, which has come under intense scrutiny this year, and the government, which has pledged to implement Kingman's recommendations.

A world of numbers

1/3

The fraction of businesses who plan to alter their supply chains in the next three years to make them more socially and environmentally responsible, according to a global survey released this month by HSBC. Some companies are switching to renewable energy, while others seek to reduce the amount of goods and components they move when producing an item, said the bank, which surveyed clients across 34 markets.

52%

The percentage of surveyed consumers in 10 cities in the Greater Bay Area who expect their online spending next year to exceed the amount they spend offline. This illustrates the increased opportunities available to smart retailers, according to *Tapping into smart retail*, a recent report by KPMG China and GS1 Hong Kong.

46,063

The record number of Securities and Futures Commission-licenced individuals as of the end of September. The number of people applying to become stockbrokers, futures traders, analysts or fund managers in Hong Kong rose by 15 percent in the third quarter, compared with the same period last year, the *South China Morning Post* reported.

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

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

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

招標文件可於辦公時間內(星期一至星期五上午 9 時至下午 6 時)向立法會秘書處物料供應分組索取(地址：香港中區立法會道 1 號立法會綜合大樓 10 樓 1004 室；電話：3919 3016；電郵：sup_gen@legco.gov.hk)。

The Tender Documents can be obtained during office hours (9:00 am to 6:00 pm, Monday to Friday) from the Supplies Section of the Legislative Council Secretariat (Address: Room 1004, 10/F, Legislative Council Complex, 1 Legislative Council Road, Central, Hong Kong; Telephone: 3919 3016; Email: sup_gen@legco.gov.hk).

投標者須於**2019年2月15日下午3時或之前**，把競投承辦審計工作的投標書放入立法會綜合大樓地下公眾入口2列明上述投標項目的投標箱("指定投標箱")內。倘若在2019年2月15日上午9時至下午3時期間，黑色暴雨警告或8號或以上熱帶氣旋警告信號生效，或立法會綜合大樓關閉，截止投標時間將順延至下一個工作天的下午3時。逾期遞交的投標書或沒有放入指定投標箱內的投標書，一概不予受理。

Tenders for the audit shall be deposited in the Tender Box named with the title above ("Specific Tender Box") situated at Public Entrance 2, G/F, Legislative Council Complex **by 3:00 pm on 15 February 2019**. In case a Black Rainstorm Warning Signal or a Tropical Cyclone Warning Signal No. 8 or above is in force or the Legislative Council Complex is closed for any duration between 9:00 am and 3:00 pm on 15 February 2019, the Tender Deadline will be extended to 3:00 pm on the next working day. Late tenders and tenders not deposited in the Specific Tender Box will not be considered.

立法會秘書處
Legislative Council Secretariat

AFP

Cussion Kar Shun Pang, CEO of Tencent Music Entertainment Group (centre)

AFP

Mark Weinberger

Rupert Grint

❶ Tencent Music IPOs on NYSE

Tencent Music Entertainment Group, the music streaming spin-off of China's technology giant Tencent Holdings, saw its shares jump by almost 10 percent, on its first day trading in New York on 12 December. The company priced its initial public offering (IPO) at US$13 and closed at US$14, giving the company a market value of about US$22.9 billion, comparable to Spotify's current valuation of US$23.1 billion. Tencent Music's IPO is the latest in a series of Chinese companies going to market this year despite the United States-China trade war and the recent downturn in U.S. financial markets. According to media reports, traders were nervous the market volatility would adversely affect the company's public debut. The company reported about 800 million monthly active users at the end of September.

❷ EY Global Chairman to step down

Mark Weinberger will step down from his role as EY's Global Chairman and Chief Executive Officer, effective from 1 July 2019, the Big Four firm announced earlier this month. According to EY, he successfully led the firm through its "Vision 2020" strategy – aiming to make the firm a "US$50 billion distinctive professional services organization" – and believes that stepping down at the beginning of its fiscal year 2020 is the right move. Weinberger, who joined the firm in 1987 and was elected as global chairman and CEO in 2012, said: "When I reflected on the massive changes we have navigated over the last seven years and the strong position we command to enable EY to excel in the years ahead, I realized that the time is right for me to step aside." The firm expects to appoint a new global chairman and CEO sometime in January.

❸ Xero launches open banking API

Cloud-based accounting software platform Xero launched its open banking application processing interface (API) last month. The API aims to enable banks, FinTech companies and financial institutions to connect to the platform, and provide bank feeds faster for small businesses. Direct access to bank feeds, enabled through the API, help small businesses and their advisors save time on tasks such as managing cash flow, making crucial business decisions, and uncovering deep insights about performance. The move is in line with the Hong Kong government's recent establishment of the Open API Framework as part of its initiative to drive financial innovation in the banking sector. Xero currently has partnerships with more than 180 financial institutions globally.

❹ Harry Potter star in legal battle for tax refund

Actor Rupert Grint, who played Ron Weasley in the *Harry Potter* film series, is challenging a 2016 ruling that denied him a £1 million tax refund. A tax tribunal judge previously rejected the actor's appeal against an HM Revenue and Customs block on him using a change in accounting dates to shield his earnings from a higher tax rate. Grint's barrister said at a hearing on 12 December the previous judge applied the wrong legal test when deciding his case. In the 2016 ruling, the judge described how Grint, following advice from tax advisors, changed his accounting date so that 20 months of income would fall to be taxed in 2009-2010 instead of 2010-2011, the year the top rate of tax increased by 10 percent. The date change would have led to Grint saving £1 million on income, according to his accountants.

Two first-time winners of this year's Best Corporate Governance Awards tell Nicky Burridge about the steps they took to tighten their practices and standards, and why the journey to do better continues

Illustrations by Ester Zirilli

STEPPING UP

For corporate governance to be truly effective it must be more than just a box-ticking exercise, according to winners of the Hong Kong Institute of CPAs' 19th Best Corporate Governance Awards (BCGA).

The Wharf (Holdings) Ltd., whose operations include property, logistics and hotel ownership and management, prides itself on putting corporate governance at the very heart of its business. "We believe we have to go beyond just compliance with legal and regulatory requirements because good corporate governance is a must for business development," Kevin Hui, Director and Group Financial Controller at Wharf, explains. "It has been widely recognized that a strong corporate governance framework is critical to minimizing risk, maximizing performance and sustaining growth."

As a major public utility company, The Hong Kong and China Gas Company believes that corporate governance disclosures should be enhanced for the benefit of its many stakeholders, who range from consumers and businesses to shareholders and investors. John Ho, Chief Financial Officer and Company Secretary, says: "We believe that good corporate governance principles and practices should emphasize accountability and increase transparency so as to earn our stakeholders' trust and faith in us to take care of their needs and fulfil our social responsibility.

"Championing laws, and honest and fair competition are crucial to sustaining our competitive advantage in the market."

Effective implementation

The Hong Kong and China Gas Company and Wharf were first-time winners at this year's BCGA, and both as winners of the Sustainability and Social Responsibility Reporting (SSR) Awards. The SSR awards were introduced in 2011 and focuses on environmental, social and governance (ESG) reporting. The awards reflect the increasing importance placed by the community on how companies address the longer-term issues of the sustainability of their business models. To help listed companies meet greater demands and expectations from investors and other stakeholders, the Hong Kong Stock Exchange in 2016 upgraded the ESG Reporting Guide to "comply or explain."

Hui thinks the win is a reflection of how Wharf is constantly striving to improve its corporate governance. "We see it as a never-ending commitment to constantly review and assess our policies to respond to the fast-changing environment, regulations and needs of our diversified businesses," he says.

In order to achieve these aims, Wharf has put in place a Corporate Social Responsibility Steering Committee and a Risk Management and Internal Control Committee to help drive development internally, both vertically and horizontally, to ensure all business units within the group are working in line with its strategies and policies.

The Hong Kong and China Gas Company has also been working to improve corporate governance. "In recent years, we have put more effort into risk management. At the board level, our Audit and Risk Committee assists the board in fulfilling its audit and control-related duties through the review of the company's financial reporting, risk management and internal control systems." Ho says.

He adds that the company has also put in place company-wide Risk Management Committees, which involve senior executives and the heads of business units, to regularly assess different company risks and map out mitigation plans in Hong Kong and Mainland China. "In view of increasing cyber threats to operation system breakdowns and sensitive information leakage, we have also set up a Cyber Security Committee to monitor the situation and implement preventive measures whenever necessary," he says.

Ho explains that while business ethics and integrity has long been an integral part of his company's core values, this year it has adopted an "anti-fault policy." The policy aims to promote an ethical culture and enhance the group's ability to detect and prevent fraud, misconduct and malpractice, as well as to promote consistent behaviour across the organization.

The policy applies to all employees, including directors, at the company, its subsidiaries and joint ventures. The Hong Kong and China Gas Company is also encouraging contractors and suppliers to follow the principles of the policy.

The group has also implemented a whistle-blowing policy that provides effective guidance and a reporting channel for employees to raise concerns about possible

This year, there were 23 awardees of the Institute's 19th Best Corporate Governance Awards overall, three more than in 2017. A total of around 700 annual reports and 450 sustainability reports were put through an initial screening process, followed by an in-depth review of the disclosures and practices of the best candidates, to draw up shortlists for the different categories of awards.

improprieties in financial reporting, internal control or other matters in relation to business ethics. This channel is also available to other parties who deal with the company, including contractors, suppliers, creditors and debtors.

Ho explains that the company has a dedicated panel to deal with any issues raised through whistle-blowing, with summaries of cases also submitted to the Audit and Risk Committee.

But there is more to good corporate governance than simply having policies in place, and Hui stresses that for Wharf, having an internal control and reporting system to monitor relevant policies and targets is essential. "Just documentation is not enough because we have to make sure what we have said or drawn up is implemented," Hui says.

The judges of this year's awards also emphasized the need to ensure policies were actually being implemented. Eric Tong, Immediate Past President of the Institute and Chairman of the judging panel, says: "It is important to stress that effective corporate governance requires more than just making good disclosures. The judges take note of a company's overall performance, including evidence of how corporate governance is being implemented in practice."

He adds that boards should also be more transparent about the way in which they operated and their accountability for business strategy and risk management. In terms of areas of weakness, the judges' report notes: "Public sector organizations should consider providing more details of the work done by the board and committees, including significant matters considered and the corresponding actions taken to address the key issues."

Impact on employees

Another crucial aspect of effective corporate governance is continuous training to ensure all staff know the policies, notes Hui. If this is done adequately, he believes it brings considerable benefits for companies, including fewer human errors, while risks can also be more easily identified and mitigated. "Employees will over time gain stronger awareness of the related rules, regulations, codes and standards because they have to go through all of these during the process of documentation or implementation," he says. "With a more transparent corporate governance framework to follow, employees may also be more disciplined, more prudent and more risk-averse because the whole process of assessment, review and documentation is something that sticks to their mind already."

One of the biggest challenges Wharf faces in implementing its corporate governance policies is the fact that the group is large and diversified. "We have different businesses and subsidiaries, large and small, and they may have different cultures due to historical acquisitions and mergers and they may be at different paces in corporate governance," he says.

He thinks the group's corporate governance frameworks are strong enough to mitigate these differences, but he adds that it is important to pay special attention to varied corporate cultures issues, while close communication is crucial.

Ho agrees that having employee participation is central to effective corporate governance. "To do good corporate governance without employee participation, policies and measures means nothing," he says. "In 2017, we provided 188 hours of anti-corruption training for our employees. In the coming years, we are going to launch a company-wide promotion campaign with a focus on integrity in our Hong Kong and Mainland China operations to underpin the corporate culture of integrity."

Despite the importance of employees, Hui thinks technology will have an increasing role to play in corporate governance performance going forward. "Adoption of new technology for increasing automation is indispensable in an extremely complex and competitive environment," he says."We have adopted and will continue to explore and develop new applications for our different businesses and work procedures, which will directly or indirectly enhance corporate governance in terms of assurance and effectiveness."

Technology, he adds, is impacting everything from low-level data processing and document management systems to high-level big data analysis to help identify potential risks and business opportunities.

Room to improve

Although many companies have made progress, no diamond awards – the highest honour – were given this year.

The BCGA judges highlighted a number of areas where companies could provide more information, including the criteria for appointing executive and non-executive directors, greater clarity around the reasons for directors' resignations and more details about board evaluations. They also said companies should provide more details on the different components of the remuneration packages for directors and senior management.

Hui agrees that there is always room for improvement. "Business risks are evolving quite quickly, with fast-changing market ecology and regulations, both locally and globally," he says. He adds that Wharf benchmarks itself against the Organization for Economic Co-operation and Development's requirements and recommendations, as well as the United Nations' Sustainable Development Goals to help it keep abreast with best practice. But he also thinks a company's corporate governance framework must be designed to suit its own structure and needs, and be forward-looking.

Both Hui and Ho note it is essential that there is strong support for corporate governance at board level. "The board has demonstrated strong commitment and is ultimately accountable for the company's activities, strategies and financial performance," Ho says.

Hui thinks senior CPAs have a critical role to play in helping companies build up their governance frameworks. "As trainers, they provide management teams of the whole organization with updated market trends, rules and regulations," he says. "They work with these teams to formulate relevant strategies and policies in an effective manner."

He adds that CPAs also report to the relevant committees and boards on the work being done and the development status of governance matters, while they can help to fine-tune the framework.

Hui is delighted that Wharf has won an award, but also sees the process as valuable feedback on the company's policies. "This recognition from external parties means a lot to our team. It is encouraging and strengthens our belief on our sustainability journey," he says. "The comments made by the judges are valuable in helping the group make further improvements in this area."

He adds that the awards' criteria help Wharf frame its own corporate governance standards. "They provide objective external information and views, which serve as a good reference for our framework," he says. "It also allows us to have a deeper understanding of the performance of our peers and market expectations. We can learn from other awardees' best practice as well."

Indeed, the BCGA seek to focus everyone's attention on the values of good corporate governance, notes Tong. "We hope that all these awards set good, attainable benchmarks for others to follow and that they will encourage more listed companies and public sector organizations in Hong Kong to raise the standard of their governance."

Christopher Arnold
and George Willie

Christopher Arnold, Head of Small and Medium Enterprises/Small and Medium Practices and Research at International Federation of Accountants and George Willie, Managing Partner at United States-based Bert Smith & Co., on how small firms can remain relevant in the new year

The practice of tomorrow

There is a general consensus across the world that small- and medium-sized practices (SMPs) need to re-evaluate the services they provide. This may involve changing their business model to include or expand business advisory and consulting services.

Research indicates that, irrespective of jurisdiction, accountants, and especially SMPs, continue to be the preferred advisors to small- and medium-sized entities (SMEs). SMPs have an in-depth knowledge and understanding of their SME clients and are therefore well-positioned to provide a range of value added services.

Of the over 6,000 SMPs who responded to the 2018 IFAC Global SMP Survey, 86 percent provided some form of business and advisory consulting services. The range of services is wide and diverse, including corporate advisory, management accounting, business development and restructuring services. Advisory services are predicated to have the most substantial growth in the next 12 months with the majority of small practices (51 percent) anticipating moderate or substantial fee revenue increases in this service line, compared to tax compliance & planning (40 percent) audit and assurance (36 percent) and accounting/compilation (36 percent). To respond to client demands, practices should focus on three main areas:

Professionalism

A key framework is the International Code of Ethics for Professional Accountants, which sets out fundamental principles of ethics for professional accountants and distinguishes them from other consultants or advisors. Professionalism underpins all of professional accountants' activities. SMPs can promote their values including integrity, diligence, trust and putting clients first and be clear that they are providing professional advice and services.

Firm structure and business model

There are a range of different options for transitioning and providing different services, which includes recruiting specialized talent to focus on a niche area, merging or acquiring a new firm and training existing staff to equip them with new skills.

It is clear that a new service cannot be provided without sufficient expertise and knowledge. A firm may decide to recruit a new partner who specializes and has strong experience in one particular industry or sector. This would enable them to understand client's issues in that area and importantly bring added-value from their exposure to a range of similar businesses over the years. Combining one practice with another, either through a formal merger or informally through a referral process and "business partnering," provides an immediately available resource for existing clients and a new revenue stream.

Adding additional experienced expertise to a practice can also help with talent attraction and retention, which continues to be top challenge facing many SMPs. In fact, 54 percent of small practices have difficulty attracting next generation talent. However, cross-training staff in new service lines provides valuable learning experiences and can be combined with on-the-job involvement. Even starting small, with basic tasks, is beneficial expertise which will grow quickly over a just a few years.

All staff members should be actively encouraged to provide suggestions for potential new service lines, as they are often closest to the clients. Communication training and encouraging a more client centric mindset can often help staff to listen and fully understand the client needs, so the appropriate service can be scoped and delivered. This shift helps staff focus on the practice's value proposition and level of fees charged.

External opportunities may take the form of new technological developments, emerging activities or sectors, or changes in legislation to provide specialized advice. To appeal to younger generations who strongly value working in ethical, dynamic and sustainable organizations, firms could focus on service lines which have some element of public service or environmental and social impact.

Technology tools

Fully utilizing a range of technology is critical to future success. Twenty-eight percent of SMPs plan to allocate more than 10 percent of total practice revenue over the next 12 months to technology investment. As automation and digitization continues to impact business, clients will require advice on how to effectively implement technological solutions. For example, SMPs can provide valuable advice on what tools can make any business process more effective and efficient to reduce administration costs around generating and processing invoices, chasing late payments, payroll etc.

SMPs should also develop and implement a technology strategy not just for their clients, but also for their own practice. This may include utilizing practice management software packages to assist, for example, in timesheet, billing and monitoring recovery rates or a customer relationship management package to help the provision of services or implementing a client portal.

Increasingly, the higher value work of SMPs will be future-focused based on analysis, interpretation and insights, compared to lower value historical tasks such as inputting data, verification and conventional reporting. Technology tools provide an opportunity to provide information to clients in real-time. For instance, visual dashboard reports can be easily and quickly generated to enable a meaningful discussion with clients on a monthly basis with current figures. Practitioners in some jurisdictions have specialized in becoming virtual chief financial officers – utilizing the cloud enables them to service a number of businesses and provide appropriate, relevant advice, around the clock.

There are tremendous opportunities for practices to be innovative and transform, especially due to the environmental and technological shifts.

This article originally appeared on the IFAC Global Knowledge Gateway. Visit the Gateway to find additional content on a variety of topics related to the accountancy profession.

CONFIRMING THE FUTURE

Tony Hallam tells Nicky Burridge how his auditing background gave him the breadth of experience to lead FinTech company Confirmations Asia Pacific's business, and about the impact of digitalization on the profession

Photography by Calvin Sit

It is not unusual to have a chief financial officer based in Europe, who is the authorized signer for a business bank account held with a bank in Singapore, for a client being audited by an accounting firm in Hong Kong.

In the past, when it was time to do an audit confirmation, the Hong Kong auditor had to send paperwork to Europe for the CFO to sign, giving the bank permission to disclose information. The CFO would return the paperwork to the auditor, who would then send it by post or courier to the bank in Singapore. Only then could the bank send a letter to the auditor with the information on their client's banking arrangements that they needed to complete the audit. The whole procedure was cumbersome and time consuming.

FinTech company Confirmation has shaken up the process by creating a platform that connects the three parties digitally, enabling the exchange of information to happen instantaneously. "Confirmation takes an age-old process that has been done since audit was first invented but has been done on paper. It automates and digitizes that process," Tony Hallam, Chairman of Confirmations Asia Pacific, explains during a recent visit to Hong Kong.

Continuing with the example above, the platform has reduced the time taken for the auditor to obtain the banking information they need from weeks to less than three hours, saving both time and money. "The platform enables the auditor to do their work in real time, the client isn't being chased as much for authorization, and for the bank, the request arrives in an organized digital flow that means they can tick off the requests one by one and complete the work more quickly," Hallam says.

Confirmation was launched in 2000 and today has more than 4,000 banks and 16,000 audit firms across the world registered on its platform. It confirms more than US$1 trillion in banking arrangements every year.

In Hong Kong, it has more than 500 audit firms registered with it, as well as 20 banks, including local player Hang Seng, and international banks like Citi, HSBC, Standard Chartered, Goldman Sachs, JP Morgan and Bank of America.

A growing platform

Hallam is not surprised by the success of Confirmation. "Accountants and auditors are all grappling with how they can do more in less time, particularly from a compliance and process perspective. We also always get a positive reception when we talk to a bank that receives thousands of paper requests each year," he says. "Once you have done something digitally that you used to do by paper, you don't go back to paper."

Despite this fact, Hallam concedes that getting people to change the way they have always done something can be challenging. "The main challenge that anyone faces when you are changing a process is to bring people to that process and get them to use it and see the benefits," he says. "We continue to do that through education and communication, as we know that we have a service that adds value, reduces cost and also significantly reduces the risk of audit fraud."

Confirmation opened its office in Hong Kong, where it has had clients for more than 10 years, in 2016. "To grow in any market, you have to illustrate to that market that you are there on the ground with your customers. That is the reason why we opened an office here. We continue to grow and will continue to invest in Hong Kong," he says.

Hallam adds that while not all auditors in Hong Kong are ready to adopt new technology, there is a significant appetite among firms for digitization, which is reflected in the volume of growth the group is experiencing. "Hong Kong has its own uniqueness around regulation and scale, and we are constantly told that customers here, be they banks or audit firms, are looking for more efficient ways of doing things." He adds that with Hong Kong as a major international market, a lot of activity for auditors is taking place across the global financial markets, so they not only need confirmation from local banks but also ones in other jurisdictions.

> **"The platform enables the auditor to do their work in real time, the client isn't being chased as much for authorization."**

The scale of the opportunity in the city is also significant. "In Hong Kong every company is audited, no matter the size. That is different to Singapore and Australia, where only the largest 20 percent of the companies are audited. There are over 2,000 audit firms in Hong Kong compared with Singapore where there are roughly 500," Hallam says.

Confirmation, he says, is focused on building on its portfolio of banks both in Hong Kong and internationally to ensure it can offer auditors as broad a selection of banks as possible.

The case for digitization

Hallam explains that throughout the profession, younger qualified staff are coming in, and want to work in environments that mirror the rest of their lives. This, he notes, is one of a number of reasons why accountants and audit firms should invest in digital solutions. "If you want to engage with your staff and show them it is a place they can grow and develop, you have to be investing in technology."

He points out that similarly, clients are increasingly living in a digital world, and they want to be dealing with accountants and auditors that are comfortable in that world. He adds that digitization saves time and reduces operating costs for firms themselves.

But he thinks technology will only be able to take the accounting profession so far, and there will always be a need for a human element. "I think the key to being a great accountant is being able to bring a view to the table and give an opinion that is based on good solid thinking, data, professionalism and experience," he says. "I don't think that is any different today than it was 20 years ago, but I think it is more important nowadays because technology is going to replace some of the base work that accountants have done."

Accounting firms also cannot afford to ignore FinTech developments. Hallam highlights that FinTech is by its nature disruptive, although he adds that it will ultimately lead to improved customer service offerings by traditional industry players. "I think that is the opportunity it represents," he says.

But he does not see Confirmation as a disrupter. "We would say we are a transformer of a process, but we actually support the current regulation around the confirmation of audit reports."

The right experience

Hallam is no stranger to the audit process, having started his career at PwC in Australia, where he worked for 20 years. "I am an auditor by trade, so I know this process because for every junior auditor, it is the first job they are given."

He thinks auditing gave him a great base on which to build his career. "I wouldn't be doing any of the work I have been doing in the past 15 years without the 20 years I spent at PwC. It gave me a depth

Confirmation announced a partnership with Allied Irish Banks in Ireland and De Surinaamsche Bank In Suriname in November, and partnered with Confirmations Ltd. Saudi Arabia in January. Over 16,000 audit firms use its services globally.

Tony Hallam worked in the sports and major events industry for 13 years with institutions such as Golf Australia, Football Federation Australia, Melbourne Stadiums, Nimble Australia, Yarra Bend Golf and Melbourne Boomers Women's National Basketball League Club

of experience working with people and trained me in a way that is quite structured and analytical."

One aspect of his current role that he most enjoys is building relationships with people as he helps them to understand Confirmation's service, and he credits his time as an auditor for helping him in this area too. "Underlying it all is the issue of building relationships, either internally or with customers, and earning people's trust," he says.

Hallam was a national assurance leader at PwC in Australia during a time when the audit profession was coming under heavy scrutiny following company failures such as Enron and Worldcom, and he thinks this has continued.

"I think generally over the last 20 years the scrutiny of auditors

Hallam graduated from Monash University and worked at PwC for 20 years, where he spent nine years as partner

"If you want to engage with your staff and show them it is a place they can grow and develop, you have to be investing in technology."

has become more significant. It is now much more of a regulated industry." He adds that this development has led to auditors having to change how they carry out their role and evidence their work. Technology, he says, can assist auditors in this area by helping them to do their work more effectively and efficiently.

A passion for sport

Hallam became involved with Confirmation five years ago, after he and a business partner, Natalie Lewicki, approached the group to see if it needed a representative based in Asia Pacific. "Confirmation already had users in the region but we saw the opportunity to grow with operations based in the key financial markets of Hong Kong, Australia and Singapore, and being closer to our customers. We were fortunate enough that they did, and we now run that business," he says. The company was already operating in Canada, Europe, the Middle East and Africa.

Confirmation has a particular focus on Hong Kong and Singapore in Asia Pacific, given the importance of these markets in the region, while it also has offices in Australia, New Zealand and Malaysia.

In addition to PwC and Confirmation, Hallam has spent 13 years working in the sports and major events industry. This experience included being chief executive officer of Golf Australia, which oversees golf in the country, as well as chairman of Melbourne Stadiums, the operator of Etihad Stadium.

Despite being a very different industry to auditing, he says there are still significant similarities between working in sport and his current role at Confirmation. "In sport, you have to make sure you have a very solid brand that is supported by very solid service, and you can never forget the importance of people relationships to growing a business," he says. "People often say to me that sport must be very different, and although every industry is different, there is a great commonality around this and what I do now, in terms of dealing with people and relationships, conflict and trust."

Unsurprisingly, sport is a major passion for him. "I am a fan of many sports. I am part-owner in a professional women's basketball team called the Melbourne Boomers. I chair that club along with a golf business that operates a public golf course, Yarra Bend Golf. I also like Australian football, golf and soccer," he says. "That, along with my two daughters and my wife, and work takes up most of my time."

by Gary Poon

Member of the Institute's Community Services Working Group and Partner of Poon & Co. on how CPAs can give back to the community using accounting and related expertise

How to give back using accounting expertise

Like other Accountant Ambassadors, I have had the opportunity to make a difference in the society through the "CPA for NGO" programme, the Institute's flagship social responsibility initiative. As an Accountant Ambassador, I conducted seminars and workshops, provided pro-bono advisory services and visited executive boards to advocate good corporate governance and best governance practices to non-governmental organizations (NGOs).

The following are some tips for members considering getting involved in such programmes, and supporting the community.

Align objectives and understand needs

It is imperative to first align the objectives of community service projects with your own. If you are not committed or passionate about these projects, the standard of the community services can be compromised.

If you are giving a talk, remember that the seminar topic should be relevant to the target audience group. Whether you are talking to accounting and finance staff or board members, your seminar should be tailored to meet their needs. The former group tends to look for more in-depth coverage of the technical aspects of the topics, while the latter group expects more high-level coverage of the topics at the executive level.

Collect information in advance from the recipients in order to reduce expectation gaps.

Be prepared, professional and patient

Similar to your professional work, preparation before seminars and meetings with the recipients is critical. Sufficient understanding and research on the relevant professional standards and publications, regulations, best practices and common application issues are all vital to the successes of these community services. Despite the pro-bono nature of these community services, people expect high quality professional advice from accountants, and for CPAs to offer different options, make recommendations and ultimately solve the identified problems.

During the pilot-run of the pro-bono advisory service offered to a selected group of NGOs in 2017, teamwork among accountants within the teams of three and preparation between the several meetings were critical.

With the majority of the target groups being non-accountants and with different backgrounds, staying patient is key. Using layman's terms and stepping into the shoes of the recipients can help you to communicate more effectively in these community service projects.

Manage risks and liabilities

If consulted on issues you are not familiar with, it is advisable to carry out further research, and respond later than to give the wrong advice too soon while under pressure. Nevertheless, we should remind ourselves of the areas where we do not possess sufficient expertise to provide professional advice, and understand our own limitations.

In some cases, recipients may ask for advice on areas that go beyond the scope and objectives of the projects. Knowing and communicating how to distinguish between advice expected from professional accountants and routine work performed by, for example, the employees of the NGO, can be helpful in managing expectations.

As Institute members, integrity and ethical standards should be maintained at the highest level when taking part in these projects. Possible oversights that can be prevented include charging fees after providing community services without going through the appropriate procurement procedures, such as quotations and tendering where applicable, and organizing community service projects during office hours without getting prior permission from the recipients' employers.

Other than the Institute's main social responsibility programmes of "CPA for NGO" and "Rich Kid, Poor Kid," the Institute's free public advisory service scheme can give members further opportunities to give back to the community. Duty Accountant Ambassadors have the chance to not only meet people from the general public face-to-face and advise them on their financial-related issues, but also witness first-hand how their knowledge and expertise can truly make a difference to people's lives.

"Using layman's terms and stepping into the shoes of the recipients can help you to communicate more effectively in these community service projects."

YOUNG &

It takes hard work, motivation, and a bit of luck to start and run a successful business. Four entrepreneurs, all Institute members, tell Jeremy Chan how they navigated uncertainties and setbacks, and how unexpected circumstances led them to become their own boss under 35

Photography by Calvin Sit

RESTLESS

Kato Chu started boxing while in university. She now runs her own Muay Thai boxing gym

"We realized many women in Hong Kong are interested in the sport but are reluctant to try, because they think only men do it."

We've all experienced light bulb moments – those out-of-the-blue moments of clarity or realization – but not many of us can turn them into successful business ideas.

In a place like Hong Kong, the opposite is perhaps true. Statistics from the *Global Entrepreneurship Monitor Hong Kong and Shenzhen Report 2016-17* show that 19.7 percent of adults intend on starting their own business, up from 7.3 percent in 2009, illustrating the continued growth of the city's entrepreneurial spirit. Many entrepreneurs are also starting out younger, with the global average age being 31 according to a 2017 HSBC study, and are doing so with the desire to not only make money, but to turn their passion into a business.

Kato Chu's light bulb moment came after constant rejection from her female friends when she asked them to join her in the boxing ring. Chu got into Thai boxing during her university years, and liked how it kept her in shape. But her friends felt uneasy about attempting the male-dominated sport.

With equipment such as padding, mats and boxing gloves, she started coaching her four to eight friends in dance studios after work along with a partner, and saw how much they enjoyed it. "We realized many women in Hong Kong are interested in the sport but are reluctant to try, because they think only men do it," says Chu, Secretary Accountant at software company Citrix Systems Hong Kong. Through word of mouth, her classes grew, driving her to consider starting her own boxing gym that would appeal to female customers. With a partner, she converted a studio room in a Kwun Tong building into a boxing centre, calling it The Corner.

Named after the corner of every boxing ring where competitors rest and recover, Chu's gym aims to be the same – an oasis for boxing enthusiasts. "Our gym is a resting place in a busy city. If our students are going through ups or downs in life, they can release their stress through Muay Thai here," she says.

At the beginning, Chu found it hard to find more customers. "Excluding friends, we had almost no clients during the first few weeks," Chu says. "Thai boxing isn't something new in Hong Kong – people are always looking for the best price for classes, and they can easily compare prices online. Because of this, it's hard sustaining a business in Hong Kong." She then had to resort to new methods. "There was a time we changed our class timetables and prices quite frequently to find the most desired price, in order to attract customers and maintain our operations." She also tried asking her customers to leave feedback and responded to their suggestions. By slowly creating a close-knit community of female boxers, Chu started seeing new faces. "After some time, our members referred new customers to us, and those became long-term customers."

Dedicating time to building her business on weekends was tough, and Chu says another challenge was her lack of experience and resources. "I have been boxing for many years, but I have always been a paying customer – I knew how to spend money, I didn't know how to earn money." She also had

"The most important thing is to just do it – you really won't know what will happen, until you step out there."

Kane Wu is Co-founder of ThinkCol, a data science consulting start-up

to teach herself new skills to market her own gym. "I spent a lot of time learning design software to create pamphlets and street banners. It was a long process," she says. A process, that eventually paid off.

Her gym now has over 1,800 members. Though she faced difficulties, her passion for the sport pushed her to keep striving for success. "You don't have a boss or other people to motivate you, so remember to set goals and organize your work on a daily basis," she says. "Always be kind to your customers, working partners and staff. You will have a higher chance of being successful."

Certain uncertainties

Like many people, it took time before Kane Wu realized what he wanted to do. He had always dreamed of being his own boss, so when an old friend reached out to him about starting a data science company, he knew it was fate. He left his job at a Big Four firm and went on to do a master's degree in data science at Imperial College London, all while speaking and planning the big move with his friend over the Internet for six months. After getting his degree, he flew back to Hong Kong, and met him the very next day.

They founded ThinkCol, a data science consulting company, in March 2016. The company helps businesses interested in artificial intelligence (AI) to build AI software and technology using data science and machine learning. Now a team of 14, ThinkCol's recent projects include helping a company track its social media analytics, and one multinational tech company to build a chatbot. It also helped a quasi-governmental body to create a software prototype to predict housing prices in certain areas of Hong Kong. All of these were done using AI software.

Wu started the company because he knew AI is at the forefront of technology today. "More companies recognize that AI and machine learning are some of the most efficient ways to efficiently gather insight and leverage resources, giving them an edge over other companies."

While some businesses reach out to him to create AI software, others may not understand the possibilities or know what they want. "For clients who are not familiar with AI solutions, we consult them and understand their company pain points. We get to the bottom of their problem areas, understand their target users, and determine how the new AI solution can fit into their overall line of business," he says.

Wu admits being an unprepared entrepreneur when he started off. "I honestly didn't know whether I was good enough at data science to really get out there," he says. Before studying data science, Wu earned degrees in both computer science and law in the United States, and returned to Hong Kong to earn his CPA qualification while working at EY. Wu didn't let the fear of failure get in the way of him chasing his dreams. "People attach a stigma to failing, but I believe it's the best lesson."

Wu and his team enjoy seeing the impact of their hard work. "It feels great when you can actually see your client using your product, and see them complete tasks which used to take

"Home renovation is a headache for most families in Hong Kong because most of them do not know how to do it."

Woody Tong is Co-founder of Codeco, a home renovation company

them a long time to do." He adds how aspiring entrepreneurs don't have to quit their jobs to get the ball rolling. "Try building your own website first, or a small part of your product to show people and get feedback," he says. "The most important thing is to just do it – you really won't know what will happen, until you step out there."

Curing renovation headaches

After referring a home renovation contractor to his friends one day, and receiving a small commission, Woody Tong knew he had stumbled upon a great business idea. This led him and a friend to found their own company in 2013, when Tong was 30.

A combination of the words "collaborative" and "decoration," his company Codeco connects contractors and interior designers to home renovation projects, and receives a fixed commission upon completing each renovation. "Home renovation is a headache for most families in Hong Kong because most of them do not know how to do it," says Tong, who previously worked in audit and corporate finance for six years. "With this in mind, we knew there was a big market." With his friend in charge of marketing, their idea eventually caught the attention of the media and potential investors.

But after securing their first investment earlier on, they hit a brick wall in early 2016. "Sales did not perform as well as expected, which meant problems with cash flow," he says. "We were at our lowest point, and we almost decided to close the company," Tong recalls. Not knowing how much longer they would last, that difficult time taught him to be frugal, and to not give up. "It was important to keep my expenses low, especially at the beginning," he says. "I would spend a quarter of what I used to spend each month – I couldn't even go out for dinner with my friends."

A last-minute investment from someone who had read about Tong in a news article, turned things around. "My team looked at each other and said 'wow, we survived.' Even I couldn't believe it." From there, they formed various partnerships with home renovation material suppliers, launched an app for their services, and partnered with over 150 contractors and interiors designers who reached out to Tong through the company website. The once two-person start-up bloomed into a 20-person company over the next five years, and they have since completed more than 1,000 successful renovation projects.

Tong knew from the beginning it would be a risk to start young, but now says it was an advantage in disguise. "I have met many competent people who want to take the big leap and become entrepreneurs, but they have kids or families to support," he says. "Those responsibilities and commitments make it hard for them to chase their dreams."

While he wasn't too fond of the long working hours at his previous jobs, Tong voluntarily works well into the night at Codeco. "You need to make work a habit," he says. "During the day, I solve problems together with the team, and at night, I focus on my own tasks. If you're doing something you love, you don't think it's a waste of time."

Crafting an art

David Gallie's parents were not too pleased when they first heard about

David Gallie's love for craft beer led him to start his own brewery

"I really wanted to be able to work on something, and have a tangible product at the end."

his brewery idea. "My friends were definitely supportive, but my parents – not so much," he says. "My mum actually said 'no one likes beer, why are you making beer?' so I said 'Mum, *you* don't like beer, and you're not everyone,'" he laughs. Despite the lack of support and experience, Gallie's love for craft beer drove him to start his own brewery.

Gallie grew up in Hong Kong and discovered craft beer as a university student in the United States. He returned to the city to work at PwC for three years, and then at UBS Wealth Management focusing on anti-money laundering – all while missing the fruity and flavoursome craft beers he had tried in America.

Craving a more hands-on and physical job, both Gallie, then age 30, and his brother, left their jobs to team up to bring craft beer to Hong Kong. "I really wanted to be able to work on something, and have a tangible product at the end," says Gallie. "And beer, is tangible."

Ordering most of his equipment online, he slowly transformed a large room in a Wong Chuk Hang industrial building into a beer-brewing operation. With no experience between him or his brother, they hired a master brewer from Germany to teach them the essentials during the first six months. Opening in 2014, they named their brewery Black Kite, after the Chinese bird species, and came up with the flavours for their six signature beers – Golden Ale, Wheat, Southside Ale, IPA, Porter and Oh, Bacon! Rauchbier-Smoked Ale.

But with local craft breweries such as Young Masters, HK Beer Co. and Moonzen already dominating the craft beer market, and Gweilo Beer launching soon after they did, Gallie's brewery had a rocky start. He began by selling bottles to his friends and family, and struggled to turn a profit for months. "We had saved up a fair bit, this entire business was self-funded," he says. "However, if I had done this at say, 40 years old with 20 years' worth of savings in the bank, I'd have had a lot more capital to use, and we could have afforded slightly better equipment, or spent a lot more on marketing," he says. "I also hadn't really developed my own network yet. I think if I had been working for that long, I'd know a wider range of people and I'd probably have had more help, too."

He spent the next few years meeting with bar and restaurant owners to do business, and slowly shifted from selling bottles to kegs. "We finally broke even in 2017. Our sales could finally cover rent, utilities, ingredients and packaging costs, so we don't have to put anymore money in the business."

The industry is competitive but quite helpful, according to Gallie, mentioning a second brewery in the building next door. "I could go down to them and ask 'can I buy some hops or malt off you?' or if one of our home brews tastes funny, I could bring him a sample and ask 'what's wrong with this?' Because we like helping each other, I really like this industry."

According to a 2017 report by HSBC Private Banking, 56 percent of millennial entrepreneurs in Hong Kong went into business with the goal of increasing their personal wealth compared with 40 percent in the U.S. and 29 percent in Europe. Other motivations include the desire to change their lifestyle (52 percent) and be their own boss (44 percent).

LOCAL EXPERTISE GLOBAL ADVICE

Stephen Tsang, Partner in New Zealand firm Withers Tsang, has ridden several waves of immigration and investment from China and Hong Kong to create a unique mid-tier firm. He talks to *A Plus* in his Auckland office about the accounting profession's adjustment to a fast-changing multicultural environment

Photography by Mala Patel

New Zealand is best known for its breathtaking scenery – from the verdant glades found in *The Lord of the Rings* films to snow-capped mountains and the lush landscapes of its many islands. So the office of Withers Tsang – a squat office block in the trendy Auckland suburb of Grey Lynn and Ponsonby – is something of a surprise.

Auckland is an example of the multicultural revolution that has changed New Zealand society over the past 30 years. Chinese, Indian and Afrikaner communities rub shoulders with the existing Maori and Pakeha (white European) residents as well as immigrants from the numerous islands of the Pacific Ocean.

Inside the Withers Tsang office, there is a mosaic of employees reflective of the world outside. "We have the benefit of these people who have overseas connections and international cultural connections and then we can now look after clients of the same ethnic backgrounds," says Partner Stephen Tsang, a Hong Kong Institute of CPAs member.

Auckland, the country's commercial capital, has a metropolitan population of about 1.6 million – barely more than Hong Kong Island. But statistics suggest more than 180 ethnicities live in the city. "We have local Kiwis, Russian and Indian accountants as well as those from China and Hong Kong," he adds. "We need to embrace multiculturalism because we are in one of the most diverse cities in the world."

With political stability, rule of law based on the British legal system, mature institutions and an advanced education system, New Zealand has long attracted migrants in search of a better life. The first Chinese settlers arrived in the 1850s and have moved here ever since.

When Tsang moved to Auckland after high school, he was part of a first modern wave of Hong Kong emigrants, many of whom were fearful of the British colony's return to Chinese sovereignty in 1997.

A bit of everything

In a sense, that crossed mail determined Tsang's future. With the Big Four deadlines expired, he obtained a position with the Auckland office of Horwath – what is now part of the Crowe Horwath brand. "I joined a business advisory service," he explains.

Tsang's employers quickly saw an opening in the market, thanks to the migrant influx into New Zealand in the 1980s and early 1990s. "The first wave was from Hong Kong and I was one of only five Cantonese-speaking accountants in the whole of Auckland in that era," he says.

"Then I got my first client from Hong Kong, so basically I shepherded the client through all the meetings, translated everything from all the bank negotiations and meetings with property agents and translated all the legal documents."

Tsang was prepared for the legal side of the business, thanks to his choice of tertiary education. The University of Otago is based in Dunedin, more than 1,400 kilometres south of Auckland. "It was the first university in New Zealand and the southernmost university in the world," he says. "It was also the best university."

The accounting curriculum at the time had a significant legal component. "For example I had to do trust law, estate law, insurance law, business law, commercial law and contracts," Tsang remembers. "It's not really a law degree per se, but it's a bit of everything."

Tsang discovered that business advisory services were also a bit of everything. "The core of what we call business advisory services is preparing financial statements and year-end compliance reports, tax planning, providing business acquisitions advice and due diligence" he says.

"Now clients are far more demanding, with an expectation that accountants need to be communicators."

"I'm very proud to say I brought the first client to the firm six months after I graduated," he adds. "Predominantly at that time I was bringing in Hong Kong clients – it shocked everybody that in fact I probably brought in more clients than the partners."

Tsang says he was able to understand early in his career about taking a holistic view of clients. "We have to understand the client and the clients' needs," he says. Tsang describes his nine years at Horwath as "very hands on and at the coal face of business. In hindsight I'm actually grateful I didn't get the Big Four offer.

Lifetime services

When Tsang arrived in New Zealand as a teenage student in 1984, New Zealand's per capita income had sunk from third highest in the world in 1959, behind only the United States and Canada, to 27th position alongside Portugal and Turkey. The state owned most of the economy, while foreign exchange controls were strict, foreign share purchases prohibited, and wage and price controls applied to all goods and services.

Then in the mid-1980s, New Zealand embarked on a programme of mass privatization and ending huge farm subsidies. Budgets changed from massive deficits to surpluses as government spending plummeted. By 1998 – when Tsang and fellow Horwath employee Mark Withers decided to strike out on their own – the national economy had been transformed.

The two young accountants decided that they could transform their own sector. "We literally started from ground zero but Mark and I have worked together since day one at Horwath," he says. "The clients had all become so used to us that once they realized we had started our own firm, they all came."

"Looking back over the past 20 years, I think the industry's changed," he says. "The old days when you can still make a buck by just adding a row of numbers is sort of almost completely gone. Now clients are far more demanding, with an expectation that accountants need to be communicators."

As Withers Tsang has ridden the migration waves – from Hong Kong, Taiwan, South Korea, Mainland China, South Africa and Zimbabwe, the United Kingdom, and now India – it has adapted to help new settlers invest. "One of the things we do best is what we call due diligence – basically anything to do with your life so from pre-migration tax planning to buying a business."

Stephen Tsang is Co-founder of Withers Tsang, founded in 1998

Tsang moved to New Zealand when he was 17 years old. He went to Auckland after high school

"There's a subtle wave of Hong Kong people coming in pursuit of a better life. We are seeing young families in their late 20s and early 30s with maybe one kid, and willing to completely start afresh."

One of the results of New Zealand's economic transformation is that instead of being dominated by large state-owned enterprises, the economy is dependent on small- and medium-sized enterprises. "Here, about 90 percent of companies have fewer than 20 employees, and most of these small businesses were started by baby boomers."

As that generation – born roughly between 1946 and 1964 – prepares to retire, Tsang sees a new opportunity. "So we have a big sector to look after and resolve: succession planning," he says. "One aspect is succession planning for businesses but you also have at a personal level the retirement sector."

Facing the future

While Tsang's firm has embraced modernity – they have certification from both the Xero and MYOB accounting software companies – he believes that tradition is an important part of the profession. "Despite the wave of digitization and artificial intelligence and everything, how business operates is still the good old networking, physical handshakes and in meetings."

He chuckles as he recalls asking a younger employee to process a cheque. "'How?' he asked me." Similarly, he is appalled at hearing about networking consultants teaching millennials how to network. "What we take for granted from 30 years ago – just human-to-human interaction – is now needed to be taught."

Tsang adds: "I think this is sort of the challenges, the pros and cons of the digital age. On the one hand it's giving us efficiency we've never seen before and on the other hand it erodes some of the good old fundamentals of how business operates. It comes back to the trust component. I actually want to see the person before I engage them."

Not all traditions should be retained, Tsang notes. He supported the 2014 merger of the New Zealand Institute of Chartered Accountants with the Institute of Chartered Accountants Australia. "The merger had become necessary to expand membership, and to pool resources and get a bit more economy of scale."

For Withers Tsang and its 29 accountants – including Institute member, Winnie Wong, Associate of Withers Tsang – the future will lie with what Tsang calls the "Asia-China-Hong Kong interface." He adds: "China has made substantial investments in New Zealand and we were the first country in the world to have a free trade agreement with China."

Tsang says the firm has only been lightly impacted by New Zealand's decision to ban most foreigners from buying investment properties in attempt to cool the market. Indeed, he expects migration to remain strong. "There's a subtle wave of Hong Kong people coming in pursuit of a better life," he points out. "We are seeing young families in their late 20s and early 30s with maybe one kid, and willing to completely start afresh."

This new Hong Kong wave is motivated by a better lifestyle rather than financial reasons. But, Tsang adds, there's some necessary adjustment in store for them. "One of the most uncomfortable conversations you have with a migrant from Hong Kong is to tell them that in New Zealand they have to pay tax on their worldwide income including interest and dividends."

Nevertheless, there is much to love about the country, apart from the dramatic scenery. "Fishing in New Zealand is to die for. And you don't have to be rich to own a 'little' powerboat. New Zealanders love boats like Hong Kong people love cars," says Tsang, a fishing enthusiast and dad-of-two. "Our family loves spending time at our holiday lake house in Lake Tarawera, catching rainbow trout and water skiing."

Tsang has found fulfilment in New Zealand despite the country's size and distance from Hong Kong. In 30 years, the country has changed from an agricultural backwater to a highly developed economy. "I've never forgotten when I first arrived here and asked if I could get a copy of the business newspaper, and there wasn't one – it was just one page or two pages in the daily paper."

Since then, Tsang, in the course of building his firm, has been able to advise clients on a variety of sophisticated issues. "Clients in New Zealand, because of our very small nature, really appreciate and expect and rely on accountants' advice," he says. "Here, I am a jack-of-all-trades."

In the last 10 years, there has been a 67 percent increase in Hong Kong residents leaving the city to work and live in New Zealand, citing reasons such as a high cost of living, unaffordable housing and a stressful lifestyle, according to the *South China Morning Post*.

Ginnie Wu volunteering at Shing Tak Centre of the Society of Boys' Centres

GIVING BACK

Hong Kong people are very giving. According to The Charities Aid Foundation's World Giving Index 2018, the city is one of most charitable economies, coming in 30th place out of the 144 surveyed. The report showed that 44 percent of Hong Kong people had helped a stranger, donated money to a charity, or volunteered time at an organization in the past month.

Ginnie Wu is one of those people. She volunteered at Shing Tak Centre of the Society of Boys' Centres (SBC) for the first time this month. SBC is an organization of schools which helps boys aged 8-18 with behavioural and emotional problems reintegrate into mainstream schools. The experience, she says, was as enjoyable as it was eye-opening.

Along with her husband, Wu, Deputy Manager of Business Advisory Services at Crowe (HK) CPA Limited, took part in the SBC's Christmas Cooking Fun Activity during a weekend morning. Before the event she was quite nervous – Wu didn't know how to cook, so she never imagined she would one day be guiding a group of young students on how to chop, prepare, and serve food. But by carefully observing and learning from the school's guest chef she was able to guide the children through preparing the dishes step by step. She was pleasantly surprised from the start. "Because of their age, I thought it would be difficult for them, but they were very involved in the activity," she says. "The older students helped the younger ones with difficult tasks such as chopping ingredients, and some even demonstrated the ability to assign tasks."

She motivated the young cooks with words of encouragement throughout the session, and recalls one particularly heart-warming moment. "Some of the students were very tired towards the end, but they still managed to make chocolate tarts. They tried their best to prepare and decorate them, and even handed me a piece to try. Not only was it touching – it was also delicious," she smiles.

That one morning gave Wu a new perspective on children and on the different ways to help others. "Doing charity work has helped me to see and appreciate the different talents in every child – each child has potential," she says. With more confidence in her cooking and baking skills, Wu eagerly looks forward to joining the next event, and bringing along her colleagues. "Getting involved in charity work is meaningful. We should always keep an open mind and heart."

"Doing charity work has helped me to see and appreciate the different talents in every child – each child has potential."

Christmas is known to bring out the best in people. Jeremy Chan talks to Institute members about how they find happiness in charity work – no matter the time of year – and how giving back does more than help those in need

Samson Lee and his family after participating in the UNICEF Charity Run last year

Running with purpose

Samson Lee enjoys exercising with his family, so when he heard about the UNICEF Charity Run in 2010, Lee didn't just sign himself up – he signed his wife and children up, too.

UNICEF Charity Run is organized by the Hong Kong Committee for UNICEF and supported by the Hong Kong Amateur Athletic Association. Since the first Charity Run in 2006, the event has raised more than HK$120 million to support UNICEF's "For every child, end AIDS" global campaign in developing countries, aiming to eliminate mother-to-child transmission of HIV. This year's event saw over 13,500 participants.

Since the 2010 run, Lee, Partner at Shinewing (HK) CPA Limited, has taken part in the event seven times. He ran the 10-kilometre race once with colleagues, but enjoys

"Parents definitely influence their kids – I want them to exercise and to learn from this activity to also give back."

taking part in the 3-km Family Run the most. An avid hiker, runner, basketball player and football enthusiast, he was keen to involve his family in the race. "When my family heard about the charity run, they were very supportive of my involvement, and also felt excited about joining," he says.

He believes getting his children involved in a charity event at a young age was a good decision. "Parents definitely influence their kids – I want them to exercise and to learn from this activity to also give back," he says.

During a 3-km run, Lee runs beside one of his sons while his wife runs with the other. The run is not easy for the kids, but they have become sportier since joining, says Lee. "They now enjoy running, and have even started playing basketball and table tennis."

Lee also volunteered at Playright Children's Play Association, an organization which seeks to enrich children's lives through quality play. The charity organization designs games, provides toys and invites children with special needs to learn through having fun. "I got to meet these children. You feel that they are eager to take part in fun activities and when they are given the chance, you see that they are genuinely happy," he says. "I loved meeting the kids, and seeing them enjoy themselves was important to me."

Lee plans to join Playright again and keep running the UNICEF Charity Run with his family in the coming years. "You feel great when you are part of these events – we need people to get involved in more charity functions and activities. Charities help people in need and help society as a whole," he says. "When you help people, you also help yourself."

Like father like sons

For Raymond Cheng, charity has always been a part of life. Cheng, Chairman of HLB Hodgson Impey Cheng Limited, first got involved with charity work while in boarding school in the United Kingdom, where he volunteered to teach disabled children how to read. After returning to Hong Kong in 1996, he took up regular volunteering and still continues to help at charity organizations including Po Leung Kuk, St. James' Settlement and rehabilitation service organization SAHK, where he interacts and reads with disadvantaged kids, many of whom are orphans. He has also involved his two sons, now teenagers, with these charities since they were nine. Helping charities along with his kids, Cheng says, is deeply rewarding.

During a work trip to the Mainland, he got involved with another charity organization to rebuild a school in Liu Wang (六王鎮), a village near the city of Yulin in the southern region of Guangxi, which had been affected by flooding following heavy rainfall in June 2010. "After the flood, the students were studying in an abandoned factory," he recalls. "The kids sat on the floor and used individual pieces of wood as a desk. It was horrible."

Cheng donated to the local charity organization, helping it to start rebuilding the school (龍頭小學). "They built the school from the foundations up, concrete, plumbing and stocking of tables and chairs," he says.

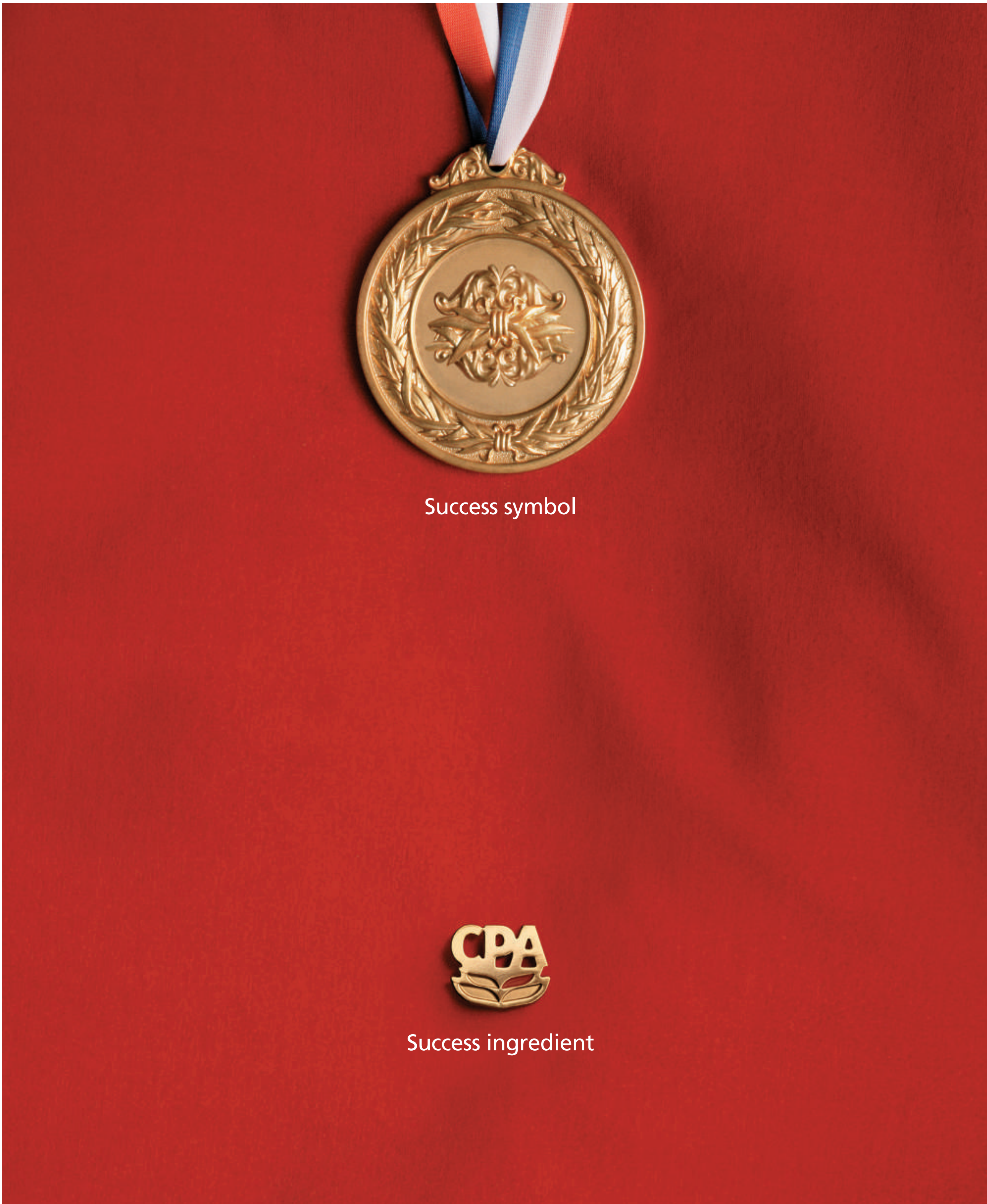
"The kids sat on the floor and used individual pieces of wood as a desk."

He brought his children along on a separate visit, with school supplies in hand. "I bought every kid a goody bag with supplies such as stationery, milk and a water bottle too." Construction began in December 2010 and finished in October 2011, and Cheng still regularly visits the school. "The school didn't believe people would visit and help them, and were truly thankful." Cheng was most surprised about the impact the experience had on his kids after they returned home. "It changed the way they saw things, and they are grateful with their lives in Hong Kong," he says.

Cheng is also currently raising funds for another charity organization to purchase and build large water tanks in Guangxi, known as Dashi (廣西大石山區). "There were outbreaks of diseases due to poor hygiene and dirty water," he says. "One water tank is able to supply clean water to an entire village." He has visited the areas and met with locals to understand how the water tanks have to be put in place. "It's not a one-off," he adds. "They have to be routinely cleaned, maintained, and refilled with clean water, and the organization has a team of people who regularly inspect the water tanks." With the project beginning in October, the water tanks are currently being built, and Cheng looks forward to his next visit in early 2019.

Cheng recommends other CPAs to get involved with charities, and to bring their children along. "Helping in charities changed my children's perspectives – they are more willing to help people now, and are less selfish too," he says. "A lot of people are in need, and we could all take some time to help out."

Raymond Cheng visits the kids at a new school in Yulin, Guangxi


Success symbol
Success ingredient

Carmen Lo regularly gives career talks to secondary and university students

Being an inspiration

Like many students in Hong Kong, Carmen Lo faced numerous challenges and pressure in her school days. She was not too confident in her English writing skills, and was unsure of what to study in university. In a way, she wished she had a mentor.

Three years ago, Lo started hosting talks at a wide variety of organizations and institutions. She is currently a member of the Institute's Young Members Committee as well as Convenor of its Prospective and New Members subgroup. She speaks at secondary schools and organizations such as School-Company-Parent Programmes under the Education Bureau and Young Entrepreneurs Development Council. She is also a mentor for the Business School of The Chinese University of Hong Kong, where she shares life experiences with students who wish to work in the business and financial sector.

"The youth need some sort of guidance," says Lo, an Onsite Examiner at the Hong Kong Monetary Authority's Credit Risk Division. "They also face parental, social and peer pressure." Having a mentor, Lo says, helps students to open up and overcome difficulties in life. "Some students aren't outgoing enough, and they often bottle up their feelings."

"Some students aren't outgoing enough, and they often bottle up their feelings."

Volunteering on the weekends or after work, she gives advice to mainly secondary and university students. "Different teenagers have different concerns," she says. For junior students, a common problem is a lack of confidence in speaking English, so Lo shares how she overcame that by writing more English letters to a friend when she was a Form Two student. Lo says that a recurring challenge secondary school students face is deciding what to study in university. With them, she speaks on how she decided on her study stream and university major.

"For example, I would share how I chose to transfer from one major to another, and the diversified work exposures thereafter," she explains. "I wanted to highlight that one's major might not necessarily determine what one will be doing as a career in the future," Lo says. "I also advise them to choose a major that they love, as doing so would motivate them even more," she adds.

Helping Hong Kong's youth keeps Lo happy. "I'm quite busy with my job, but I always spend some time to do what I love doing – helping the students," she says, adding how they also inspire her. "Since they are still young, they think differently and are creative, so being with them has helped me see things from a different angle. I also feel younger when I speak with them," she laughs. She is delighted whenever students tell her how much of an impact she has made in their attitude and lives after each session."When I see the students or members of the audience bring something back home, I feel very satisfied."

Through the "Rich Kid, Poor Kid" programme, the Institute's Accountant Ambassadors have held over 750 seminars on money management for more than 130,000 students in 450 primary and secondary schools around Hong Kong since 2005. The Institute's "CPA for NGOs" programme also pairs Accountant Ambassadors with non-governmental organizations to offer professional advice on accounting, governance and risk management.

HKFRS 16 – Frequently asked questions on leases discount rate

Hong Kong Financial Reporting Standard (HKFRS) 16 *Leases*, which becomes effective for accounting periods beginning on or after 1 January 2019, introduces changes to lessee accounting, and replaces Hong Kong Accounting Standard (HKAS) 17 *Leases*.

Currently, under HKAS 17, the majority of leases are classified as operating leases and do not appear on the lessee's balance sheet. That will change when lessees apply HKFRS 16, with the new standard eliminating the classification of leases by lessees as either operating leases or finance leases. Instead, a lessee will account for almost all leases in a manner similar to today's finance leases. This means that a lessee will recognize both an asset and a liability on the balance sheet. The asset represents the lessee's right to use the asset underlying the lease for the duration of the lease term. The liability reflects the lessee's contractual obligation to make payments to the lessor throughout the lease term.

When the standard becomes effective, a lessee will be required to measure the lease liability at the present value of the lease payments payable over the lease term. A key input into the present value calculation is the discount rate. However, lease agreements do not usually state an interest rate and, even if they do, it may not be the rate as required by HKFRS 16. This means lessees need to determine what discount rate to use to calculate the carrying value of the lease liability. HKFRS 16 also requires the discount rate to be reassessed in certain circumstances.

This article outlines some of the practical tips and considerations in determining an appropriate discount rate for leases.

What the standard says

Paragraph 26 of HKFRS 16 requires lease payments to be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If not, a lessee is required to use its incremental borrowing rate. Both methods have the same objective – to reflect the actual pricing of the lease contract (HKFRS 16.BC160).

The concept of the interest rate implicit in a lease and the lessee's incremental borrowing rate is elaborated in the table 1 on page 45.

For the lessee to use the interest rate implicit in the lease, that rate needs to be readily determinable. In its Basis for Conclusions on the new standard, the International Accounting Standards Board (IASB) acknowledges that because the rate implicit in the lease takes into account the lessor's estimate of the residual value of the underlying asset at the end of the lease, and may be affected by taxes and other factors known only to the lessor (such as initial direct costs of the lessor), it may be difficult for lessees to determine the rate implicit in the lease for many leases (International Financial Reporting Standard (IFRS) 16.BC161). If an implicit rate is not readily determinable, the lessee should use its incremental borrowing rate as the discount rate.

There is a common misconception that a company that has never borrowed funds does not have an incremental borrowing rate – for example, when an entity has sufficient cash or is restricted by law from raising debt. In fact an incremental borrowing rate is the rate that a lessee would have to pay to borrow funds to obtain an asset of a similar value to the right-of-use asset rather than a general corporate borrowing rate. How an entity finances its operations does not directly affect the determination of its incremental borrowing rate under HKFRS 16. The sections below provide more discussions on the determination of incremental borrowing rate.

Have the discount rate requirements changed from HKAS 17?

The definitions "interest rate implicit in a lease" and "incremental borrowing rate" under HKFRS 16 are broadly unchanged from HKAS 17.

HKAS 17.20 requires finance-leased assets and liabilities to be measured at the fair value of the leased assets or, if lower, the present value of the minimum lease payments. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease if it is practicable to determine, otherwise, the lessee's incremental borrowing rate shall be used.

Under HKFRS 16, the discount rate will become important to more companies than before as almost all leases are required to be recognized on the balance sheet.

The following are some practical matters that are commonly encountered by entities when determining the appropriate discount rates for leases.

Q1. Can a lessee use a single discount rate for all leases?
No. HKFRS 16 specifies that individual leases should be considered separately

Table 1

	Interest rate implicit in the lease	Lessee's incremental borrowing rate
Definition (HKFRS 16 Appendix A)	The rate of interest that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.	The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.
Commentary	It is a rate that the lessor uses to price the lease. Essentially, it takes into account the minimum return that the lessor expects to earn on the lease.	It is a rate at which the lessee would borrow to finance an asset of a similar value to the right-of-use asset. Essentially, it takes into account the term of the lease and the security guaranteed on the lease.

(HKFRS 16.B1). An incremental borrowing rate is the rate that takes into account the term of the lease, the security guaranteed on the lease, the value of the underlying asset in the lease and the economic environment in which the lease is entered into (HKFRS 16 Appendix A).

Having said that, a lessee is permitted to use a single discount rate for a portfolio of leases with similar characteristics if the lessee reasonably expects that the effects on the financial statements of applying HKFRS 16 to the portfolio would not differ materially from applying it to individual leases within the portfolio (HKFRS 16.B1).

Q2. What should be considered when determining a lessee's incremental borrowing rate?

A lessee's incremental borrowing rate is "the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment" (HKFRS 16 Appendix A). Paragraph BC161 of HKFRS 16 explains that the incremental borrowing rate is essentially a rate that takes into account:

- The credit standing of the lessee;
- The length of the lease;
- The nature and quality of the collateral provided; and
- The economic environment in which the transaction occurs.

In theory, a lease is similar to a secured lending arrangement as a lessor has the right to reclaim the underlying asset itself. Therefore, the discount rate for a lease should reflect a rate that a lessee would borrow on a collateralized basis.

In addition, as the incremental borrowing rate is the rate that a lessee would have to pay to borrow the funds; it appears that the incremental borrowing rate should consider only borrowings, not other sources of finance (e.g. equity). Therefore, the discount rate for a lease should reflect a rate that a lessee would face if 100 percent of the cost of an asset was funded with finance.

In an article published by members of the IASB *Leases One Year On - Putting IFRS 16 Into Practice*, one of the board members noted that, to arrive at an appropriate incremental borrowing rate for the lease, lessees need to think about the factors a lender would typically consider. If lessees have difficulties in identifying a rate for a similar borrowing to use as a starting point, the author suggested that a lessee should consider how the price of the lease was assessed at contract inception. Alternatively, lessees could make use of other observable rates such as relevant property yields as a starting point, and then consider how those observable rates might need to be adjusted in order to meet the definition of incremental borrowing rate in IFRS 16.

Q3. Can a lessee simply use its general borrowing rate or property yields for discounting lease liabilities?

No. Incremental borrowing rates are lessee-specific and directly linked to the leased asset itself (HKFRS 16 Appendix A). As mentioned in Q2, it is possible for a lessee to refer to a rate that is readily observable as a starting point when determining its incremental rate for a lease. We outline below the factors that are commonly applied in practice to derive the discount rate for a lease from a general borrowing rate and a property yield.

General borrowing rates

To derive the discount rate, an entity adjusts

its general borrowing rate to reflect the features specific to the lease. Based on its own facts and circumstances, an entity may consider applying the following adjustments to its general borrowing rate as needed:

- Align the duration of the loan to the length of the lease;
- Reflect the loan with a collateral similar to the nature and quality of the leased asset;
- Reflect the loan amount similar to the value to the right-of-use asset; and
- Align the currency of the loan with the currency of the lease payments.

In practice, some entities may simply ask banks to quote an incremental borrowing rate based on the terms of the lease contract. It is important to note that even if a bank does provide a rate, an entity should exercise appropriate professional judgment when evaluating the information.

Property yields
A property yield can be used as an input when determining the incremental borrowing rate for property leases. Property yields reflect the annual return expected on a property. However, property yields do not reflect lessee-specific features that would affect the incremental borrowing rate – e.g. the length of the lease, the lessee's credit rating etc. Like a general borrowing rate, an entity adjusts the property yield to reflect the features specific to the lease in order to derive the discount rate.

Q4. Can a subsidiary use its parent's or group's incremental borrowing rate as the discount rate for its leases?
It depends. In principle, a subsidiary that is a lessee should not use its parent's or group's incremental borrowing rate as its discount rate, even if all the debt financing is obtained centrally by its parent company. That is because incremental borrowing rates under HKFRS 16 are lessee specific and should reflect the rate a lessor charges the subsidiary.

Nonetheless, it may be the case that the rate charged by the lessor has been influenced by the credit standing of the parent or group. For example, negotiations with a lessor may require the parent entity to guarantee the lease payments, in which case, the pricing of the lease may be influenced by the credit standing of the parent, rather than the subsidiary. If so, it might be reasonable for the subsidiary to use its parent's discount rate as an input in determining the lessee's borrowing rate in the lease contract.

Q5. When is a lessee required to revise discount rates used in calculating lease liabilities?
A lessee is not required to reassess its discount rate during the lease term unless the economics of the lease change (HKFRS 16.BC194). For example:

- When the original lease term or assessment of a purchase option changes (HKFRS 16.40); or
- When floating interest rates change, resulting in a change in future lease payments (HKFRS 16.43).

If the economics of a lease change, the revised discount rate is the implicit interest rate for the remaining lease term, unless it cannot be readily determined. If the implicit rate cannot be readily determined, the revised discount rate is the lessee's incremental borrowing rate at the date of reassessment (HKFRS 16.41).

Other considerations

Entities should not underestimate the time it will take to determine appropriate discount rates. Additional data may be needed from third parties. Depending on the information available to an entity, estimates will need to be used according to an entity's particular circumstances. Entities should document the basis for these determinations. Entities also need to disclose how discount rates have been derived and the sensitivities around them if they represent a significant judgment or estimate under HKAS 1 *Presentation of Financial Statements.*

This article is written by the Institute's Standard Setting Department in consultation with experts from the accounting practices. It is intended for general reference only and has no authority. The Institute and the staff of the Institute do not accept any responsibility or liability in respect of the article and any consequences that may arise from any person acting or refraining from action as a result of any materials in the article.

Hong Kong's new legislative support for HKFRS 9

New bill allows taxpayers to align the tax treatment of financial instruments with their fair value accounting treatment under HKFRS 9

Under Hong Kong Financial Reporting Standard 9 *Financial Instruments* (HKFRS 9), the local equivalent of International Financial Reporting Standard, applies for accounting periods beginning on or after 1 January 2018. In general, the standard requires more financial instruments – both assets and liabilities – to be accounted for on a fair value basis.

As held by the Court of Final Appeal in November 2013 in the case of Nice Cheer Investment Limited v. Commissioner of Inland Revenue FACV 23/2012, such a basis of accounting can include profits or losses which would be regarded as being unrealized or anticipated for tax purposes, and should therefore be non-taxable or non-deductible as the case may be.

The decision of Nice Cheer would mean that taxpayers would have to make tax adjustments to accounting profits or losses recognized under HKFRS 9, or previously under Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (HKAS 39), to exclude unrealized profits or losses when they file tax returns.

Despite the decision of Nice Cheer, many taxpayers have however expressed a desire to file their tax returns on a fair value basis. In doing so, these taxpayers hope to avoid the trouble of tracking transactions on a realization basis for tax reporting purposes.

In response to requests by such taxpayers, as an interim administrative measure, the Inland Revenue Department has since 2013/14 accepted tax returns where taxpayers have chosen to file on a fair value basis.

To provide more clarity and certainty, the government has now introduced the Inland Revenue (Amendment) (No. 7) Bill 2018 (the bill) to codify the interim administrative measure into the Inland Revenue Ordinance (IRO).

The bill will apply retrospectively in relation to a year of assessment for which the basis period begins on or after 1 January 2018.

Key provisions of the bill

Election required – specific provisions for transition and exit arrangements

Tax assessment on a realization basis will be the default position for all taxpayers. Those who prepare financial statements in accordance with HKFRS 9, and wish to align the tax treatment with the accounting treatment, can make an election in writing pursuant to the proposed section 18H of the IRO.

Upon election, the alignment of the tax treatment with the accounting treatment will apply to both the year of assessment and all subsequent years. Furthermore, all profits or losses of the prior years which would have been taxable or deductible had the provisions of the bill been applied, will also be taxable or deductible in the year of assessment for which the election is made.

The election will cease to have effect (i) when the taxpayer ceases to prepare their financial statements under HKFRS 9; or (ii) the Commissioner of Inland Revenue (CIR) approves an application in writing by the taxpayer to revoke the election. The CIR may approve such an application where he is satisfied that there are good commercial reasons for the revocation and that avoidance of tax is not the main purpose, or one of the main purposes, of the revocation. Such a revocation will apply from the year of assessment as specified by the CIR.

Exceptions apply where alignment of accounting and tax treatment may not occur

While the provisions of the bill to align the tax and accounting treatments will generally override any existing provisions of the IRO, the new provisions will not affect existing capital-revenue and onshore-offshore nature of the financial instrument defined under the IRO.

As a result, subsequent to a taxpayer making the relevant election, and subject to certain exceptions, most notably the treatment of expected credit losses (ECL) recognized under HKFRS 9, the accounting profits or losses recognized on financial instruments would generally also be the taxable profits or losses provided they are revenue and onshore in nature, i.e. unrealized profits or losses would be taxable or deductible, and the timing of the recognition of interest income and expense from a tax perspective would follow that under HKFRS 9.

Under this general scheme of alignment, the bill nonetheless provides for certain specific exceptions where the accounting and tax treatment of financial instruments may not align. Some of these exceptions are discussed below.

Impairment loss of financial assets in the form of ECL

HKFRS 9 requires entities to recognize at initial recognition an impairment loss in the form of an allowance for ECL on various types of financial assets including loans and trade receivables that are not measured at fair value through profit or loss, regardless of whether a credit loss event has occurred.

Previously, under HKAS 39, an entity only considered those impairments that arose as a result of incurred loss events. The effects of possible future loss events was not considered, even when they were expected.

HKFRS 9 has now introduced an ECL model which broadens the information that an entity is required to consider when determining its expectation of impairment. Under this broader ECL model, expectations of future events must be taken into account and may result in both earlier and larger recognitions for impairments.

General approach and simplified approach to applying the ECL model under HKFRS 9

There are two main approaches to applying the ECL model under HKFRS 9 – the general approach and the simplified approach.

The general approach involves a three-stage process and introduces some new concepts such as "significant increase in credit risk," "12-month ECL" and "lifetime ECL."

At Stage 1, only 12-month expected credit losses are recognized in the ECL. Stages 2 and 3 apply when there is a significant increase in credit risk as the financial assets concerned are regarded as either underperforming (Stage 2) or non-performing (Stage 3). Under HKFRS 9, only ECL made at Stage 3 would be considered as credit-impaired.

HKFRS 9 nonetheless recognizes that implementing the general approach can be complex in practice. As a result, the simplified approach has been developed for trade receivables, contract assets and lease receivables, under certain conditions.

Under the simplified approach, there is no need to conduct ongoing monitoring to detect significant increases in credit risk. Rather, entities will be required to measure lifetime ECL at all times.

Deduction provisions for ECL

The proposed sections 18K(3)-(5) specifiy that an impairment loss in the form of ECL recognized under HKFRS 9 both in respect of loans made in the ordinary course of a money-lending business in Hong Kong and trade receivables (previously included as a trading receipt) would be deductible provided that the financial assets are credit-impaired.

While "credit-impaired" is not defined in the bill, it is defined in HKFRS 9, and the definition in HKFRS 9 will apply to the interpretation of section 18K(3).

Transfer of credit-impaired loan not made by way of a sale in the ordinary course of business

The proposed sections 18K(6)-(8) specify the tax treatment for situations where a credit-impaired loan of a financial institution, with a loss allowance for ECL, is transferred not by way of a sale in the ordinary course of the business of the transferor and where a tax deduction was previously allowed to the transferor in respect of the ECL.

These provisions specify that (i) where on the date of such a transfer, both the transferor and the transferee are in the business of lending money in Hong Kong, the deduction previously allowed to the transferor is treated as having been allowed to the transferee (thereby any subsequent recovery of the ECL by the transferee would explicitly be taxable); and (ii) in any other cases, the amount previously allowed as a deduction is deemed to be a trading receipt of the transferor (thereby the deduction previously allowed to the transferor is clawed back).

Tax treatment of convertible debt securities

Under HKAS 32 *Financial Instruments: Presentation*, an issuer of convertible debt securities (which provide an option to the holder of the debt securities to convert the securities into the issuer's own shares) is required to reflect the liability and equity components (i.e. the option rights) of such debt securities separately on their statement of financial position (or balance sheet), if the option rights are to exchange a fixed number of the issuer's shares for a fixed amount of cash.

At initial recognition, the issuer is required to measure the liability component at fair value (as if there was no equity component), and the equity component will be the difference between the fair value of the convertible debt securities as a whole and the fair value of the liability component. Thereafter the issuer is required to amortize the discount/premium to the income statement, the discount/premium so amortized being the difference between the redemption price and the debt liability component of the convertible debt securities initially recognized.

The proposed section 18L(6) specifies that the part of the discount/premium that is attributable to the equity component of such convertible debt securities is not tax deductible.

Commentary

We welcome the introduction of the bill which provides solid legal backing for the adoption of fair value accounting for tax reporting purposes by election. This legislative proposal for Hong Kong is also more flexible than the corresponding legislation in Singapore where the adoption of fair value accounting for tax reporting purposes is mandatory.

It is of note that section 18K(3), which grants tax deductions for ECL in respect of financial assets including loans and trade receivables, is an additional provision to that of section 16(1)(d) which governs tax deductions for bad debt. These two tax provisions therefore address the same subject matter.

While section 18K(3) is presumably based on the more objective accounting rules and evidence, tax deduction for bad debt under section 16(1)(d) is generally considered to be more subjective. One of the conditions for deduction under section 16(1)(d) being whether a taxpayer can prove to the satisfaction of the assessor that a debt has become bad.

The government may therefore need to clarify how these two tax provisions will operate when the tax outcomes of these two provisions differ.

In addition, the government may also consider whether Hong Kong should follow Singapore and, under certain conditions, grant tax deductions for ECL to banks and qualifying finance companies in respect of their loans or debt securities that are not credit-impaired. Hong Kong's adoption of rules similar to those in Singapore would enable financial institutions in Hong Kong to compete with their counterparts in Singapore on a more level playing field.

The government may also need to explain why it considers that there is a need for the proposed claw-back of tax deductions for ECL previously granted to the transferor as a financial institution, where the transfer is not made by way of a sale in the ordinary course of business under sections 18K(6)-(8).

While the transfer may not be by way of a sale in the ordinary course of business, provided that the transfer is on arm's length terms under the transfer pricing regime recently enacted, there does not appear to be a need to claw-back in full the tax deductions for ECL previously granted.

Furthermore, the government may need to elaborate why it considers that part of the interest, discount, premium or expense recognized under HKFRS 9 in respect of convertible debt securities would not be tax deductible under section 18L(6) as being attributable to the equity component of the securities. An elaboration is needed because such interest, discount, premium or expense appears to relate wholly to the debt liability component of the convertible debt securities.

Tracy Ho is Asia-Pacific Business Tax Services Leader at EY, **Patrick Kwong** is Executive Director and **Kathy Kun**, is Tax Senior Manager, of EY Tax Services

Common deficiencies in auditing issuers' accounting for convertible bonds

Convertible bonds (CBs) are financial instruments that, in their simplest form, contain a debt component and an option for the bondholders to convert the bonds into equity of the underlying entity. They are often deployed in business combinations, and for specific purposes such as raising funds.

Given there are various ways to structure CBs, and with innovative ways regularly coming to market, accounting for CBs may be complicated. Below are two common deficiencies noted from the Institute's disciplinary cases which demonstrate the need for auditors to carry out sufficient audit procedures when evaluating the specific features of each CB and assessing the relevant accounting impact for ensuring compliance with relevant financial reporting standards.

Measuring fair values upon initial recognition

One of the most common deficiencies arises when auditors do not obtain sufficient evidence to support issuers' use of the CBs' principal amounts as the CBs' fair values.

For example, in one case, the auditor asserted that the fair values of the CBs (issued as part of the purchase considera-tion for an acquisition) were their principal amounts because the total consideration was arrived at between two knowledge-able and willing buyer and seller on com-mercial terms and was therefore already a "fair value" consideration – agreed or predetermined in advance. The auditor's argument showed that he lacked the basic understanding of the fundamental concept of fair value of CBs.

The same issuer also issued two CBs for fundraising at conversion prices which were at significant discounts to the issuer's share prices at the bonds' issuance dates. The CBs were share-based payment transactions. However, they were initially measured at values equal to their principal amounts and were not accounted for as share-based payment transactions. In explaining their lack of audit procedures on evaluating the terms and substance of the CBs, the auditor asserted that the deep discount for one of the CBs was due to the undesirable financial performance of the issuer, rather than any unidentifiable goods and services from the subscriber. Regarding the other CB, the auditor asserted that there was no service provided by the subscriber who was an employee of the issuer and that the issuer's financial advisor rendered an opinion that the CB did not contain any service element. These assertions showed a lack of understanding of share-based payment transactions. Furthermore, in respect of the second CB, the subscriber was not an employee of the issuer and there was no such opinion rendered by the financial advisor.

In another case, the issuer issued two CBs as part of the purchase consideration for an acquisition, one of which was subject to adjustment by reference to future profits of the acquiree. The sums of the equity and liability components of the bonds equaled to the bonds' principal amounts. Both CBs were fair valued by a professional valuer engaged by the issuer. The auditor failed to identify that one of the bonds was a contingent consideration payable in nature. The auditor also failed to sufficiently evaluate the assumptions and assess the methodology adopted in the valuation.

In a third case, the purchase considera-tion for an acquisition was satisfied by the issuance of CBs. The CBs were fair valued by the issuer's valuer. The auditor, having only recalculated the fair value of the equity component of the CBs by using input data of a different acquisition date and adopting a different valuation method, accepted management's assessment that the principal amount of the CBs approximated their acquisition-date fair value, which was materially different from the fair value estimated by the professional valuation.

There are also cases involving auditors who only performed limited audit procedures on the valuation of the liability component of the relevant CBs, or they did not plan properly or carry out any audit procedures assessing the initial measurement of the CBs issued as purchase consideration for acquisitions.

The above are examples showing that the entire CBs were measured at their respective principal amounts upon initial recognition. In those examples, there were indicators that cast doubt on adopting the principal amounts as the CBs' fair values, such as, the conversion price being significantly different from the market price of the entity's shares at issuance date, a significant period of time lapsing from the date of determination of the principal amounts to the issuance date, and a very low coupon rate. In those circumstances, it would be unlikely that the CBs' principal amounts would be representative of their fair values upon issuance.

Recognition of components of CBs

Another common issue relates to auditors' deficient evaluation of the terms of CBs and the resulting lack of audit procedures needed for identification and recognition of different components embedded in the CBs.

In one case, the issuer would repay the outstanding principal amounts to the

holders by issuing new shares at the higher of the then market value or a specific amount per share on the maturity date. Effectively, the issuer was required to issue a variable number of shares to redeem the CB. Thus, the CB did not meet the definition of an equity instrument and should not have been classified as such under Hong Kong Accounting Standard (HKAS) 32 *Financial Instruments: Presentation*. However, the issuer recognized the CB as an equity instrument. There was no evidence showing that the auditor had assessed the terms of the CB and obtained sufficient appropriate audit evidence to support this conclusion.

In another case, a CB was issued as part of the consideration for an acquisition but its amount was subject to adjustment based on the target group's future profit. The CB was in essence a contingent consideration payable as defined in Hong Kong Financial Reporting Standard 3 *Business Combinations*, and the number of shares to be issued upon conversion would vary depending on the target group's future profit. The entire CB should have been recognized as a financial liability. In this case, the auditor failed to carry out audit procedures to evaluate management's assumption that there would be no need to adjust the contingent consideration in the future. The auditor also failed to assess whether the valuation report on the CB had taken into account the relevant terms regarding the adjustment.

A CB may contain early redemption options for either the issuer or the holder to opt for an early repayment. An embedded call option enables the issuer to redeem the whole or part of the principal amount of the CB prior to the maturity date. If the economic characteristics and risks of such an embedded call option are not closely related to the host contract, it is accounted for separately. Otherwise, it is included in the liability component of the CB. There have been situations where the embedded call options were either ignored or wrongly accounted for in the relevant financial statements and the auditors failed to identify the deficiencies.

In one case, the auditor did not perform any work on the embedded call option notwithstanding that the option was identified and fair valued by the issuer's professional valuer. The subsequent auditor of the same issuer also failed to identify the embedded call option despite early redemption of part of the CB by the issuer in the preceding year.

In another case, despite a professional valuation supporting that the embedded call option was capable of being separated from the host contract and fair valued, the auditor concluded that the option was not capable of being fair valued as management had communicated that they had no intention of exercising the option. This position revealed the auditor's lack of understanding of the recognition and measurement requirements under HKAS 32 and HKAS 39 *Financial Instruments: Recognition and Measurement*. Further, HKAS 39 requires that factors and inputs used in a valuation model should be from the market participant's perspective and represent market expectation. An option may have value from the market perspective irrespective of management's intention about whether the option will be exercised.

The next example also demonstrates a lack of understanding regarding recognition and measurement requirements for embedded call options. The financial statements in this case showed that the value of an embedded call option was included in the liability component of a CB; however, the auditor did not perform any work on the embedded call option. In particular, there was no evaluation of the fair value estimated by the professional valuer or assessment of whether it should be accounted for separately. The auditor asserted that the call option should not be included in the CB if the coupon rate is lower than the effective interest rate, as the issuer would have no incentive to redeem the CB. Such an assertion simply could not assist the auditor. Management's expectation or intention about the exercise of the option is not relevant to justify the measurement and the accounting treatment of the option.

As CBs may contain various components, auditors should perform a detailed analysis of the terms and conditions included in the contracts of the CBs to ensure they fully understand the relevant transactions. Then, they should determine which procedures are needed to ensure that the components are properly accounted for in the financial statements. Inappropriate accounting treatment of the components would impact the financial statements of current period as well as subsequent periods.

As a Disciplinary Committee of the Institute stated in an order made against the auditor of a listed entity "The public are entitled to expect that practising accountants and corporate entities discharge their duties and carry out their work to the highest standards of probity, independence and competence. If public confidence is shaken then the price to be paid by the entire accounting profession is very high."

This article is contributed by the Institute's Compliance Department

TechWatch 194

The latest standards and technical developments

Meeting minutes

Financial Reporting Standards Committee minutes
Minutes of the 245th meeting is now available.

Ethics Committee minutes
Minutes of the 239th meeting is now available.

Local updates

Report on key audit matters
The Institute published the results of its study on the implementation of reporting key audit matters, effective for its second year, and the impact to users of financial reports. This report covers an analysis of 479 auditor's reports from listed companies.

Invitation to roundtable discussion on Hong Kong SME Standard
The Institute invites you to share your experience at a roundtable on 8 January 2019 about preparing or using financial reports under the Hong Kong small- and medium-sized enterprises Standard. The Institute is particularly interested in your responses to the questions in its Request for Information.

Proposed one-year deferral of IFRS 17 and what it means for Hong Kong
On 14 November, the International Accounting Standards Board (IASB) tentatively decided to propose a one-year deferral of the effective date for IFRS 17 *Insurance Contracts* and extend the temporary exemption for insurers to apply IFRS 9 *Financial Instruments* to 2022.

Following the Institute's standard setting due process, a Hong Kong public consultation on the IASB proposals will commence as soon as the IASB exposes the proposals for comment.

The Institute strongly encourages Hong Kong insurers to respond to the Institute's and/or the IASB's consultation documents by writing or speaking to us. The Institute may consider hosting roundtable forums.

The Institute will deliberate whether to defer the effective date of Hong Kong's equivalent insurance standard, HKFRS 17, once we hear the feedback of Hong Kong stakeholders including insurers and investors, and once the IASB makes its final decisions.

Notwithstanding the IASB's tentative proposals, the Institute strongly advises insurers to continue with their implementation efforts as the proposals are not expected to fundamentally change the requirements of the standard and we hear that the additional time would be welcomed for further testings of new systems and communication to stakeholders.

Members' handbook update Nos. 220 - 221
Update no. 220 contains PN 850 (Revised) *Reporting on Flag Days and General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department*.

Update no. 221 contains the revised Code of Ethics for Professional Accountants.

Invitation to comment
The Institute is seeking comments on the International Auditing and Assurance Standards Board's Exposure Draft Proposed ISRS 4400 (Revised) *Agreed-Upon Procedures Engagements* by 15 February 2019.

Institute's submission
The Institute has commented on the IAASB Exposure Draft Proposed ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement.*

International updates

Asian-Oceanian Standard-Setters Group meeting
At the Asian-Oceanian Standard-Setters Group (AOSSG) meeting on 20 and 22 November, the Institute's standard setting team led a discussion on IFRS 15 *Revenue from Contracts with Customers*, where the region shared commonly seen implementation challenges, which appeared to focus on real-estate development.

The Institute's standard setting team also led a discussion on business combinations under common control, exploring factors that could be considered

to determine the appropriate accounting for such transactions. Overall, AOSSG members commented that transactions with commercial substance, which is one of the factors explored, should be accounted for in the same way regardless of whether a transaction is under common control.

AOSSG members also discussed IFRS 17 with IASB board members. One IASB board member commented that some amendments to IFRS 17 will be likely but should not stop preparers from continuing with implementations, as any amendments would not change the fundamentals of the standard.

IFRS updates
November IASB Update, workplan and Investor Update

Professional accountants in business

Data analytics: an information resource
Data analytics is a broad term that encompasses many diverse techniques and processes of drawing insights from historical data over time. Today the term is most often used to describe the analysis of large volumes of data and/or high-velocity data, which presents unique computational and data-handling challenges.

The International Federation of Accountants' (IFAC) new resources on data analytics provides an overview of the different types of data analytics and their applications to financial reporting and audit, as well as usage in business, to uncover valuable insights.

IFAC report – perspectives on the finance function journey
The IFAC Professional Accountants in Business (PAIB) Committee has recently released a report which provides insight into finance function transformation, including opportunities and challenges facing the profession. The report also captures conversations and takeaways from the IFAC PAIB Committee meeting held in September.

Key topics covered include:

- CFO perspectives on the finance function journey
- The relationship between audit committees and the CFO / finance function
- Data analytics applications in business
- Data modeling beyond financial accounting and reporting
- The importance of authentic communications and professional ethics to enhance trust in business and accountants
- The latest thinking from the committee on a vision and roadmap for the future finance function

Corporate finance

SFC's statement on regulatory framework for investing in virtual assets
The Securities and Futures Commission (SFC) published the statement on regulatory framework for virtual asset portfolio managers, fund distributors and trading platform operators on 1 November 2018.

Increasing demand in investment in virtual assets, which may also refer to "cryptocurrency," "crypto-asset" or "digital token," attracted the SFC's attention, especially the significant risks associated with the investments via funds and unlicensed trading platforms. According to the existing regulations in Hong Kong, virtual assets may fall outside the scope of SFC's oversight and investors hence may lack of any protection under the current legal regime.

The statement illustrated (i) the SFC's regulatory approach for virtual asset portfolio managers and fund distributors; and (ii) its intention to exploring regulation of platform operators.

Corporate governance

HKEX's review of listed issuer's corporate governance practices and updates on ESG reporting guidance material
On 16 November, the Hong Kong Exchanges and Clearing (HKEX) published the finding of its review on examining issuers' corporate governance disclosures as well as their level of compliance with the Corporate Governance Code and Corporate Governance Report.

The new amendments to the

Corporate Governance Code and related listing rules will be effective on 1 January 2019, which are mainly related to the requirement of independent non-executive director, board diversity and nomination policies. The HKEX considered that the review can provide useful insight and guidance to listed issuers to cope with the requirement of the new code and listing rule requirements.

The HKEX has also updated its "How to prepare an ESG report?" and frequently asked questions on its environmental, social and governance (ESG)-related Listing Rules, taking into account recent international climate-related disclosure recommendations and with an emphasis on the issuer's governance structure for ESG reporting.

A summary of the above issues is set out in the press release.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Passage of Inland Revenue (Amendment) (No. 5) Bill 2018 to provide for the option for married persons to elect for personal assessment separately for all years of assessment commencing on or after 1 April 2018; to accelerate tax deductions for capital expenditure incurred in relation to environmental protection installations; to provide for tax exemption to cover certain debt instruments issued on or after 1 April 2018.
- Stamp Office Interpretation and Practice Notes No. 8 (Revised) to update the interpretation of the relevant provisions in relation to different rates of ad valorem stamp duty and the practice to be followed by the Stamp Office upon the enactment of the two Amendment Ordinances.
- Double tax agreement with India enters into force
- Enhanced services for e-filing of employers' returns
- Legislative Council question on easing the demand-side management measures on property
- Stamp Duty statistics (September 2018)

Legislation and other initiatives

Anti-money laundering notices

For updates on lists of terrorists, terrorist associates and relevant persons/ entities under United Nations sanctions, members should also refer to the Institute's AML page.

ICAC's Anti-corruption Programme – a Guide for Listed Companies and Tips for Good Environmental, Social and Governance Reporting

The Corruption Prevention Advisory Service (CPAS) unit of the Independent Commission Against Corruption (ICAC) has developed an "Anti-corruption Programme - A Guide for Listed Companies." It aims to assist listed companies in developing and effectively implementing corporate anti-corruption programmes to prevent corruption. Tips for Good Environmental, Social and Governance Reporting was also published to supplement the guide under the anti-corruption aspect, covering the recommended core elements of a corporate anti-corruption programme that listed companies should disclose.

The CPAS is a specialized unit in the Corruption Prevention Department of the ICAC, providing free, confidential and tailor-made advice and services to private companies, organizations and individuals on corruption prevention controls in areas such as procurement, inventory control and staff administration. You may find timely and useful resources at the CPAS's website on corruption prevention, such as corruption prevention guides and tools, case studies, quick tips as well as red flags, or by subscription to the CPAS e-news.

Please refer to the full version of TechWatch 194, 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

Succeeding by numbers

Title: **The Formula: The Universal Laws of Success**
Author: **Albert-László Barabási** Publisher: **Little, Brown and Company**

Judging from the number of self-help and business advice volumes available from Hong Kong's online retailers and the remaining bookshops they're replacing, the Romanian-born American physicist Albert-László Barabási is probably fundamentally correct when he comments that "people have a deep hunger to understand what contributes to success."

But few have, as Barabási has attempted in *The Formula: The Universal Laws of Success*, to measure that contribution through hard data. He assembled a team of researchers, including sociologists and business professors, to share findings and uncover what he calls the "recurring patterns" that drive human performance.

While the author and his team come up with a few equations, the problem with measuring non-physical entities such as "success," is that there isn't a constant definition. So Barabási simply invents one: "For the purposes of this book, we'll be defining success along these lines: it is the rewards we earn from the communities we belong to." He adds: "Your success isn't about you and your performance. It's about us and how we perceive your performance."

Success can be measured many ways, Barabási notes, "recognition if you're a collaborator, visibility if you're a brand, renown if you're an artist, album or ticket sales if you're a musician, revenue if you're in business or sales, earnings if you're a banker, audience if you're a playwright, citations if you're a scientist, endorsements if you're an athlete."

The basic key to achieving those awards, he says, is largely learned abilities. "Success in tennis is determined by a single factor – strong athleticism," Barabási writes. "If you're a tennis player, keep your eye on the ball and perfect your game." He adds: "You can't be a successful lawyer without a solid command of knowledge that attracts clients. You can't be a renowned architect without a strong background in structural engineering and a keen eye for design."

But the world is littered with failed geniuses. The author cites the graffiti duo known as SAMO, regarded in the 1970s and 1980s as equally talented. But one of the duo, Jean-Michel Basquiat, died of a drug overdose at 27 and has remained a highly sought-after artist. The other, Al Diaz, is still alive and has languished in obscurity. "Basquiat and Diaz are a striking example of how people with a common beginning, experience wildly divergent outcomes," Barabási observes, noting they differed in one essential aspect. "Diaz was a loner. Basquiat… was an unapologetic networker."

Interaction is a key ingredient of success, according to Barabási. "We start by thinking hard about how to generate the initial momentum that we now know is essential to success, first by encouraging those who've already praised our creative projects to do so publicly."

He cites research by Arnout van de Rijt, a Dutch experimental sociologist, who randomly selected 200 new Kickstarter crowdfunding projects whose donation tallies were zero. "He contributed a small amount of money to half of them and snubbed the other half, designating it as his control group," Barabási writes. Those who received his initial donation more than doubled their chances of attracting further funds. "It doesn't really matter who offers initial support, as long as someone does."

Barabási spends little time on the importance of chance, although he observes: "Hollywood celebrities are known to call up the tale of their big break – when a fortunate encounter or a powerful acquaintance placed them in the public eye."

The author bends some facts to suit his arguments, such as suggesting that fellow physicist Albert Einstein was unknown on his visit to the United States in 1923. (He had won the Nobel Prize in 1921 and had been the subject of a Hollywood silent film). Some of his prose is straight out of new age marketing: "The Fifth Law tells us that while success melts like a snowflake, creativity has no expiration date."

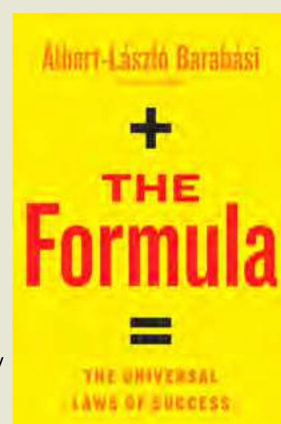
Barabási deploys his expertise in network science to create equations in support of his theories, such as *Previous success × fitness = future success*. It is interesting to see a physicist try to unravel – and apply scientific rigour – to processes usually considered firmly in the realm of the humanities.

But understanding success requires more than assigning physics-like letters to ideas, so success is denoted as S and a random idea becomes r. Even the introduction of a new measure, the "Q-factor," which reduces innovation to an equation, is unconvincing. A subjective idea like "success" cannot operate in a vacuum.

Author interview: Albert-László Barabási

Looking back on his own university days in Romania, Albert-László Barabási acknowledged his chances of success were somewhat grim. His parents were ethnic Hungarians, a minority purged from influence in the immediate post-Communist era after 1989.

"My father, a museum director, was suddenly stripped of his post and livelihood," he recalls. "One day he was running a network of museums; the next day he was checking tickets on local buses." The family went first to Hungary, and then to the United States.



Today, Barabási is Robert Gray Dodge Professor of Network Science at Northeastern University in Boston. His research, he says, is anchored by scientific concepts. "As a physics student, and then faculty, I was convinced that society works as physical systems," he tells *A Plus*. "If there is action, there is reaction. Hence if there is performance, success will follow."

He acknowledges that his conclusions are not universally applicable. "I learned that the connection between performance and success is not always straightforward," he says. "As I discuss in *The Formula*, the link is only obvious between performance and success when performance is accurately measurable."

Most of the examples in Barabási's book are taken from wealthy and upper-middle-class families in the developed world, but he believes his conclusions apply to everyone. "The research clearly shows, that given your grades – that is, the combination of your previous education and talent – going to top schools does little to boost your long term success," he says.

"Except," he adds, "if you come from a low-income home, or you are minority – in which case [going to a] top school does make a difference. They help you find an outlet to your performance, and open doors, eventually boosting your long-term income."

Barabási defends his playing down of chance in *The Formula*. "Luck favours only the prepared," he argues. "I do not know who said this first, but our research confirms it. The last formula of the book, on the Q-model, is all about that. The Q-factor captures an individual's ability to turn a random idea into a product."

Q is key, Barabási argues. "If a person has a low Q-factor, he is unable to turn even a fabulous idea into a high-impact product," he says. "The low Q-factor moderates the success of his project. The breakthroughs come from people with high Q-factor, who also stumble across, often by accident, a good idea, and are able to turn it, thanks to their high Q, into a very high-impact project."

Eat

TURNING UP THE HEAT

Step through Hotal Colombo's pink doors, and enter a realm of spices, curries and hot rotis. Inspired by the eateries found throughout the Sri Lankan capital, Hotal Colombo serves hearty Sri Lankan cuisine to a backdrop of the nation's Baila music. Its vibrant menu is designed by native Sri Lankan chef Gisela Alesbrook, who brings dishes such as fish served in a spicy coconut milk-based curry with fresh curry leaves, veal bone marrow slow-cooked with tomatoes, black pepper and sliced onions, and rice flavoured with turmeric and topped with cashews and cranberries. Each comes with a selection of sauces such as chutneys, and pol sambols – as sauce made with coconut flesh ground with chillies, salt, sugar and dried fish. The restaurant also imports the local beer, and offers cocktails such as the Bloody Marissa – a spin on a Bloody Mary – but with a hint of Sri Lankan chutney, packing a punch.

Address: 31 Elgin Street, Soho
Opening hours: 6:00 p.m. - 10:30 p.m. (Tuesday-Sunday)
Website: *www.hotalcolombo.com*

App

MINDFULNESS

Start the new year with a 7-day free trial of Calm, a sleep, meditation and wellness app. Apple's 2017 iPhone App of the Year creates unique audio content such as meditation lessons, sounds of nature, relaxing sleep music, bedtime stories for grown-ups, as well as a helpful breathing tool.

Available in both the App Store and Google Play
Subscription plans: Monthly, yearly and lifetime subscriptions
Website: *www.calm.com*

Drink

ALWAYS TIME FOR TEA

Holistic tea chain Basao Tea recently opened its debut tea bar in the tranquil neighbourhood of Moon Street in Wan Chai. Since 2015, the establishment has been working with small artisan growers across Asia, to bring tea aficionados a selection of hand-picked teas. Expect a range of premium brews such as Lingia Second Flush, a black tea from the Himalayan foothills of India, Wazuka Sencha, a green tea from Kyoto, and Gardenia Dancong, oolong tea from the mountains of Guangdong. Customers can also complement their beverage with a plate of tea-infused desserts, such as signature Home Tea Cake Roll and Tea Ice Cream.

Address: G/F, 17 Moon Street, Wan Chai
Opening hours: 11:00 a.m. - 8:00 p.m.
Price: From HK$38
Website: *www.basaotea.com*

Exhibition

LEGEND OF KWAN KUNG

Tai Kwun is showcasing *Salute to Kwan Kung*, an exhibition featuring artwork inspired by a revered general during China's Three Kingdoms period (220-280 AD). Created in partnership with Design and Cultural Studies Workshop, the installation shows how the iconic red-faced general Kwan Yu, also known as Kwan Kung, influenced centuries of culture and art, from literature, to opera, to architecture and even video games. There are also workshops, activities for students, and talks by experts on the history of Kwan Kung.

Date: Until 27 January 2019
Venue: Duplex Studio, Block 01, Tai Kwun, 10 Hollywood Road, Central
Opening hours: 11:00 a.m. - 8:00 p.m.
Ticket: Free of charge

A touch of creativity

Hong Kong's humorist on the many unique ways one can answer an accounting entry examination question

There was an interesting question on discussion website Reddit the other day. "I'm a typical liberal arts student," wrote one young man. "Should I do a second degree in accounting?"

It triggered a discussion about all the terrifying number-crunching exams he'd have to do, which all agreed would be tough for someone from the creative sector, used to making art out of pasta pieces and glitter paint, etc.

I mentioned this to friends, and one pointed out that this very column had earlier declared that the hardest exam in the world was not a mathematics one, but a creative one, the All Souls College Examination Fellowships in Oxford, United Kingdom.

That got us all thinking. What if we organized accounting entry exams for students of any discipline, and accepted creative answers, as well as mathematically correct ones?

For example, the question could be: "What is two times two?"

We'd surely get a wide range of answers.

First year accounting student: "Four? No, wait, this is a trick question, right?"

Second year accounting student: "Assuming compound interest at current rates over a year, 4.0375."

Third year accounting student: "Three, after my fees are paid, ha ha."

Literature student: "Two twos? Or not two twos? That is the question."

Music student: "A polka, obviously."

Architecture student: "Two twos are a pair of duplex semis."

Finance student: "Oh, at least 28, considering the margin I can get you."

Forensic accounting student: "Well, I'd need to know how you come to be in possession of the two items in the first place."

Languages student: "*Deux fois deus. Dos veces dos. Zwei mal zwei*."

M&A student: "Two point five, after consolidation and getting rid of the dead wood."

> **"What if we organized accounting entry exams for students of any discipline, and accepted creative answers, as well as mathematically correct ones?"**

Philosophy student: "It depends on whether the numbers exist, or indeed, whether the questioner exists."

CFO trainee: "Look, we can't afford two anythings, we're over budget."

Computer studies student: "That's easy, it's 01010101."

Financial planning student: "It allll depends on the pension plan you chose. Now let's consider the following options." [Opens laptop.]

Mathematics student: "Are we talking positive or negative integers? In a binary universe or base-4?"

Tax accounting student: "Three point five, unless we feed it through a shell company in the Caymans."

Physics student: "Does the word 'time' in your question refer to the space-time continuum or fourth-dimensional spacetime?"

Exchange student: "*Alors, monsieur*, imperial *quatre* ounce would be metric 113.398 grams, *oui*?"

Cost accounting student: "Depends whether we're talking payables, bills or payroll."

Chemistry student: "Since two molecules of CO^2 are generated for each acetyl CoA molecule introduced into the citric acid cycle, the answer is a pair of acetyl CoA molecules."

Internal auditing student: "But which department is doubling whose asset?"

Digital media student: "I have no idea what the answer is, but give me a week, and I can make a three-dimensional image of the question spin around at funny angles."

Student of Zen Buddhism: "A tree."

Kindergarten student: "Four."

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