A+

DRIVING BUSINESS SUCCESS

Issue 3 Volume 20 July 2024

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The various ways accountants use their expertise and skills to unlock corporate investment

MIDDLE EAST
Growth opportunities driven by stronger China-Middle East ties

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How can family offices overcome due diligence challenges?

THE PULL FACTOR

Christopher Hui, Secretary for Financial Services and the Treasury, on Middle East investments, family offices, virtual assets, and why accountants are the musicians of business

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

DEAR MEMBERS

As we enter the second half of 2024, I would like to share with you some of the highlights of the Institute's efforts since the last issue, which demonstrate our commitment to enhancing the value and relevance of the accounting profession in Hong Kong and beyond.

One of our strategic priorities is to strengthen our relationships with key stakeholders in the international and Mainland China accounting arena, and to promote the high standards and quality of Hong Kong CPAs. In June, I led a delegation of the Institute's leadership to Beijing, where we met with representatives from the Ministry of Finance (MoF), the Chinese Institute of Certified Public Accountants (CICPA), the China Securities Regulatory Commission, and the IFRS Foundation's Beijing Office. We also signed a Memorandum of Understanding with CICPA to enhance cooperation between the accounting sectors of the Mainland and Hong Kong in the area of continuing professional development, aiming to nurture top-tier accounting talents for an innovation-driven economy.

Back in Hong Kong, we welcomed delegations from various organizations, with the MoF paying us a visit, as well as the Chartered Accountants Australia and New Zealand, the Association of International Accountants, the Qianhai Authority, and representatives from Shandong's finance, tax, and legal institutions.

These collaborations reinforce Hong Kong's position as a worldwide frontrunner in the accounting field, creating a cooperative atmosphere that provides our members with advantages from exchanged expertise and possibilities.

"These collaborations reinforce Hong Kong's position as a worldwide frontrunner in the accounting field, creating a cooperative atmosphere that provides our members with advantages from exchanged expertise and possibilities."

Another strategic priority is to engage our members and provide them with the resources and support they need to excel in both their careers and personal development, to help them meet the evolving demands of the profession and to foster a strong, supportive community.

In June, we launched the HKICPA Sustainability Community, a dedicated hub for individuals and organizations from diverse backgrounds, extending beyond CPAs, who specialize in and are passionate about sustainability. The primary objectives of the community are to facilitate connections between like-minded professionals, provide comprehensive insights into sustainability trends and regulations, foster inspiration and knowledge sharing, drive collective efforts in sustainability practices and climate action, and offer valuable networking opportunities with esteemed sustainability leaders. I encourage you to join the community and participate in its activities, which will help you to enhance your sustainability knowledge and skills, and to make a positive impact on the environment and society.

We also organized several events to foster a sense of belonging and camaraderie among our members, such as the Movie Night, while our members took part in a number of sporting events, including great success in the Integrity Cup 2024. These events reflect the Institute's commitment to engaging our members and providing them with platforms to network, socialize, and have fun. I would like to thank all the participants, volunteers, and sponsors for their support and enthusiasm.

A third strategic priority is to promote financial education and engage the younger generation, who are the future of our profession and our society. The goal of our initiatives is to build a strong foundation for the next generation of CPAs, ensuring they possess the skills and knowledge to succeed.

In July, we published a "Financial Education Teaching Manual" for senior primary school students, in collaboration with the Hong Kong Institute of Vocational Education Childcare, Elderly and Community Services, our strategic partner. The publication is part of our initiative to enhance our "Rich Kid, Poor Kid" programme, and aims to equip teachers to enhance the financial literacy and awareness of students, igniting interest in an accounting career. We hope that the manual will be widely adopted by schools and teachers, and that it will benefit students and their families.

Moreover, we have organized numerous initiatives to captivate secondary school students earlier and to clearly articulate the excellent opportunities a career in accounting provides. A recap of our activities for the 2023/24 academic year was distributed in a communication this past July, detailing our engagement with nearly 10,000 secondary school students throughout this time.

I would love to hear your ideas and suggestions on how we can better serve members.

Roy Leung, President

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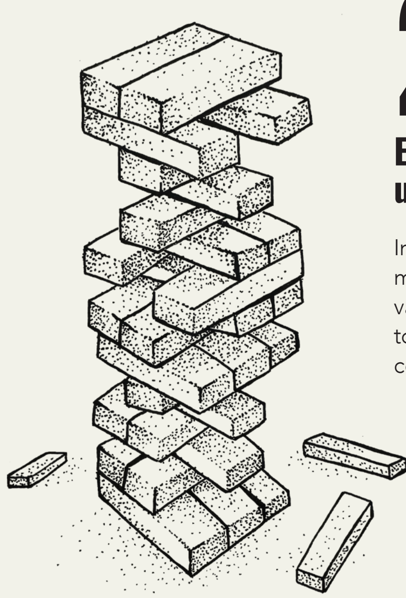

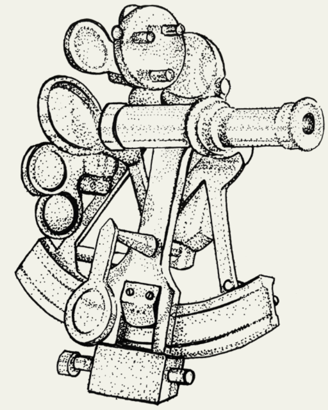

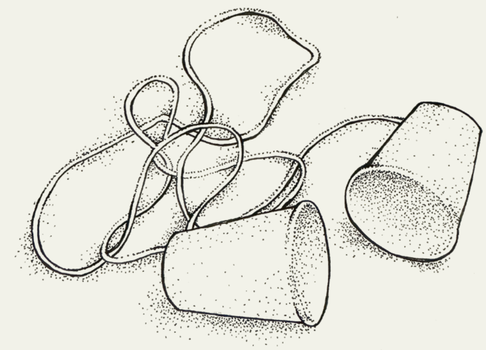

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About our name
A Plus stands for Accounting Plus. It represents a profession that is rich in career options, stays relevant amid rapid changes, and adds value to business. This magazine strives to present the global mindset and varied expertise of Institute members – Accountants Plus.

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NEWS

Institute news Business news

HKICPA Council visits Beijing to foster deeper ties

The Institute delegation, comprising the Institute's leadership team and Council members, in Beijing meeting various Mainland government departments, including the Ministry of Finance.

An Institute delegation, led by President Roy Leung, Vice-Presidents Edward Au and Stephen Law, and Chief Executive & Registrar Margaret Chan, visited Beijing on 10-13 June, to meet with key stakeholders including the Ministry of Finance, the Chinese Institute of Certified Public Accountants (CICPA), the China Securities Regulatory Commission, and the IFRS Foundation's Beijing Office.

The visit aimed to foster deeper collaboration between the accounting professions in Hong Kong and the Mainland. A Memorandum of Understanding with the CICPA was signed to enhance cooperation between the accounting sector of the Mainland and Hong Kong in the area of continuing professional development, aiming to nurture top-tier accounting talents for an innovation-driven economy. Other focus areas include healthy development of capital markets and business growth, while also contributing to global sustainability efforts. Read the press release for more details.

The HKICPA Sustainability Community launched

The Institute has launched to the HKICPA Sustainability Community, a dedicated hub for individuals and organizations, including CPAs, who specialize in sustainability. As the sustainability reporting standard setter in Hong Kong, the Institute is an active contributor to the capacity building efforts to support stakeholders in areas related to sustainability.

The community facilitates connections between like-minded professionals, provides comprehensive insights into sustainability trends and regulations, fosters inspiration and knowledge sharing, drives collective efforts in sustainability practices and climate action, and offers networking opportunities.

In the first phase of its launch, community members will gain access to sustainability-related resources, specialized training and knowledge-sharing sessions, as well as newsletters, articles, face-to-face events, and webinars.

The Institute also provides the 1-2-7 Sustainability Capacity Building Framework, a detailed learning framework that incorporate key principles of IFRS S1 and S2, and has also launched the new Sustainability Information Centre, a hub that provides access to sustainability-related resources, including guidelines, case studies, and industry updates to help members enhance their sustainability advisory capabilities.

BCG and ESG Awards 2024 open for entries

The Institute's Best Corporate Governance and ESG Awards (Awards) 2024 is now open for entries. The Awards reflect the importance of both good corporate governance (CG) and environmental, social and governance (ESG) reporting and practices for listed companies and public sector/not-for-profit organizations (PSOs), and their investors and stakeholders. Through the Awards, the Institute aims to encourage companies and PSOs to achieve high standards of CG and ESG, and to integrate good CG and ESG into their values, strategies and operations.

Listed companies and PSOs that are seeking recognition from their peers and the wider market for their commitment to high-quality, sustainable practices and reporting should consider entering the Awards. Participation is free. Interested organizations are invited to participate in one of the most prestigious and sought-after awards competitions, by submitting an entry form by 9 August.

The HKICPA Charitable Trust supports members and community

The HKICPA Trust Fund, HKICPA Charitable Fund and HKIAAT Trust Fund have been consolidated into the "HKICPA Charitable Trust", and operations commenced on 8 July.

The Institute established the HKICPA Trust Fund and the HKICPA Charitable Fund in 2001 and 1998 respectively, with the aim of providing timely support to our members facing severe financial hardship and contribute to social services and emergency relief projects in the community. Since the inception of these funds, the Institute has made cumulative donations of nearly HK$7,000,000, benefiting over 70 non-governmental organizations and nearly 200 Institute members. The HKIAAT Trust Fund, established by HKIAAT in 1999, also provided financial assistance to its members before it ceased operation.

The consolidated trust carries out the functions of the three previous funds, providing support to social services and emergency relief projects, and financial assistance, in particular, to members facing bereavement, old age, unemployment due to ill-health, or poverty caused by accidents. The trust also plays an important role in supporting education such as awarding scholarships to individuals studying the Qualification Programme offered by the Institute and taking examinations held by the Institute.

Paving the way for future accountants

The Institute hosted more events to engage secondary school students in June and July, including a career seminar with Hong Kong Association for Business Education on 5 July, and a career talk under the "Smart Way Forward" programme for around 30 secondary school BAFS students on 29 June. More details about the Institute's initiatives to engage secondary school students in the past year are available on the Institute's website.

Council meeting minutes

The abridged minutes from the April and May 2024 Council meetings are now available on the Institute's website.

Disciplinary finding

Chan Ho Yin Graham and Chan Suk King

Complaint: Failure or neglect by Mr. Chan to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 230 *Audit Documentation*; HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; HKSA 500 *Audit Evidence*; HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*; and HKSA 570 *Going Concern*. Failure or neglect by Ms. Chan to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.

Graham H.Y. Chan & Co. was subjected to a full-scope practice review which was conducted between August 2019 and May 2020. In reviewing the working papers supporting the audit of the consolidated financial statements of Client A and its subsidiaries for the year ended 31 December 2018, in which Mr. Chan was the audit engagement partner and Ms. Chan was the engagement quality control reviewer, the practice review team identified audit deficiencies in a number of areas which indicated that Mr. Chan and Ms. Chan had failed to obtain sufficient appropriate audit evidence to support the auditor's opinion expressed.

Decisions and reasons: Mr. Chan and Ms. Chan admitted the complaints against them. The Disciplinary Committee reprimanded Mr. Chan and Ms. Chan and ordered Mr. Chan to pay a penalty of HK$150,000 and costs of the disciplinary proceedings in the sum of HK$78,555; and ordered Ms. Chan to pay a penalty of HK$50,000 and costs of the disciplinary proceedings in the sum of HK$45,233.

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

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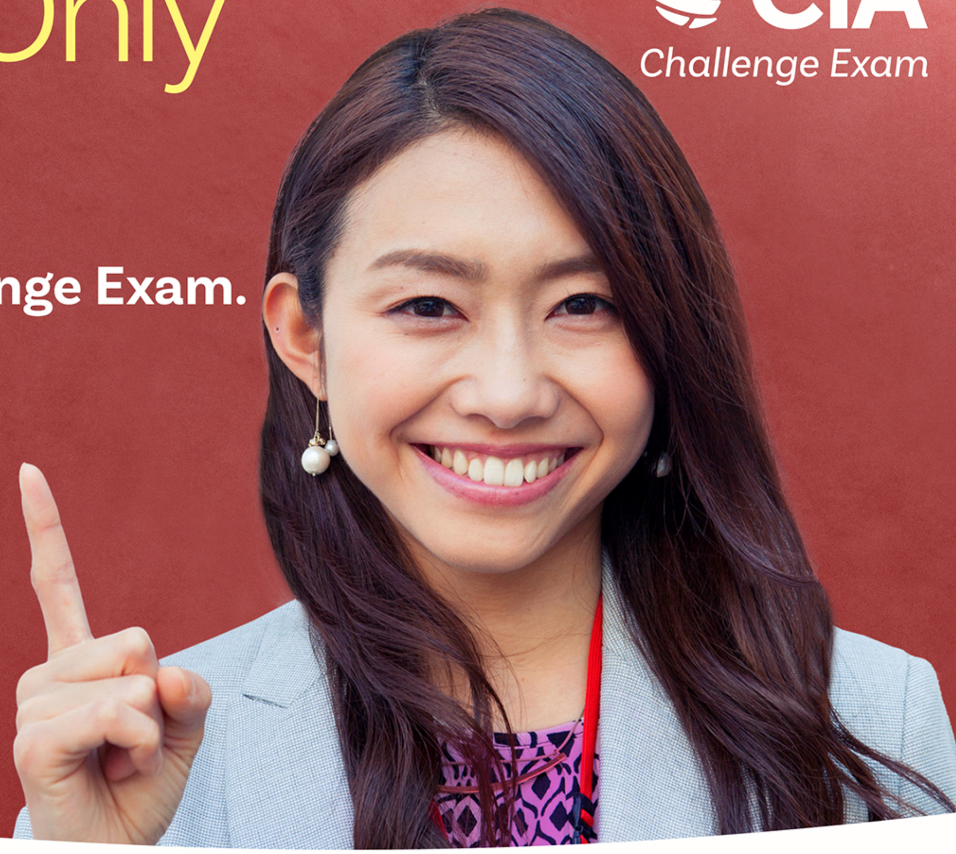

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The Institute of Internal Auditors

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The limit on the number of board seats independent non-executive directors may hold, proposed by the Stock Exchange of Hong Kong Limited (Exchange) in a bid to improve board effectiveness. The Exchange issued on 14 June a consultation on its proposed enhancements to the Corporate Governance Code and related Listing Rules. Starting from January 2025, listing applicants would be barred from appointing a director who already sits on six boards if the proposal is implemented.

US$2.3 billion

CBiz, the only publicly traded accounting firm in the United States, said it would pay US$2.3 billion to acquire U.S. firm Marcum. The combined group would reportedly become the seventh-largest U.S. accounting firm with annual revenues of US$2.8 billion. Marcum audits hundreds of U.S. public companies, including special purpose acquisition companies.

PwC

The Accounting and Financial Reporting Council said on 10 July that it had not found evidence to support the allegations by whistleblowers against PwC Hong Kong made over the firm's work for collapsed property developer Evergrande. The investigation into the quality of the audits is still ongoing.

Hong Kong's economy grew 3.3 percent in the second quarter year-on-year, according to the Census and Statistics Department, led by strong goods exports. It compares with the 2.8 percent growth in the first quarter. Goods exports rose by 7.6 percent from a year earlier, compared with a 6.8 percent in the first quarter. The government said "the economy should continue to grow in the remainder of the year, but performance of different economic segments may vary amid uncertainties."

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The number of Financial Action Task Force (FATF) members that fell below the score of 50 percent in the FATF's *Horizontal Review of Gatekeepers' Technical Compliance Related to Corruption*, which assesses the actions that FATF members have taken to apply important aspects of the FATF Recommendations to lawyers, accountants, trust and company service providers, and real estate agents. Hong Kong was ranked among the highest for technical compliance.

99%

The percentage of United Kingdom-based accountants who have used artificial intelligence (AI) to assist clients and improve business operations over the last 12 month, showing that accountants are embracing AI to boost efficiency, according the *2024 Intuit QuickBooks Accountant Technology Survey*. Data entry and processing, real-time financial insights, and financial forecasting top the list of client services where AI is leveraged.

"As we embark on our new two-year work plan that will see us strengthen and build out the global baseline of sustainability-related financial disclosures, I am grateful to our partners in the sustainability reporting landscape for their commitment to delivering an efficient, effective sustainability disclosure system for capital markets."

– International Sustainability Standards Board (ISSB) Chair Emmanuel Faber. In June, the ISSB published its Feedback Statement as it embarks on a new two-year work plan. During the next two years, the ISSB will deliver further harmonization and consolidation of the disclosure landscape in response to market demand.

55%

The percentage of chief financial officers who cite long-term planning and resource allocation as a top priority for the finance function, according to a recent survey report by McKinsey, up from 30 percent in the 2023 survey. Similarly, 60 percent of CFOs now say strategic planning is a top priority, compared to 38 percent who said the same last year.

BRINGING THE WOR

RLD TO HONG KONG

Interview with Christopher Hui, Secretary for Financial Services and the Treasury

From developing family office services, to enhancing access to emerging investment opportunities, Hong Kong is relentless in retaining its position as a global financial and investment centre. Christopher Hui, Secretary for Financial Services and the Treasury, talks to Jemelyn Yadao about initiatives being explored, and the accounting profession's role in bolstering Hong Kong's appeal

On 16 July, a memorandum of understanding (MOU) was signed between Invest Hong Kong (InvestHK) and the Abu Dhabi Chamber of Commerce and Industry of the United Arab Emirates, pledging cooperation in promoting inward and outward investments in both Abu Dhabi and Hong Kong. It is one of many MOUs signed, exemplifying stronger-than-ever relations and two-way capital flows between Hong Kong and the Middle East.

Keen on further deepening those ties is the Financial Services and the Treasury Bureau (FSTB), which views Hong Kong as offering the Middle East plenty of opportunities to tap its developed financial and professional services sectors, as the Gulf Cooperation Council (GCC) economies seek to reduce its reliance on oil. It also views these investments as an important opportunity for Hong Kong.

"We want to diversify in terms of either the source of our funding and the source of our collaborative opportunities. And, at the same time, to broaden the market for our services sector. Because after all, the clientele that we are supposed to serve sees no borders," says Christopher Hui, Secretary for Financial Services and the Treasury.

Opportunities also lie in complementing the Gulf

Christopher Hui has been Secretary for Financial Services and the Treasury since 2020. He previously held a number of public roles including member of the Hong Kong Institute of CPAs' Disciplinary Panel.

region's ambitious development plans and focus on innovation technology. Hui brings up Saudi Arabia's linear city, The Line, as an example, a glass-walled smart city under construction that is meant to stretch across the Saudi desert by 2030. "Hong Kong boasts very robust fintech and also fintech ecosystem, and we are famous for being an efficient infrastructure builder. This brings a host of opportunities for our professional sector because we are very well-versed in terms of undertaking these huge infrastructure projects, and many of them attain global sustainability standards, which is exactly what the Middle Eastern countries want," says Hui.

He says Hong Kong can also address talent needs. "Traditionally, the economy has been relying on the oil sector. So, if they want to diversify, they need people who understand their market, and at the same time can bring something new to the market. We are quick learners and are well-versed with international global standards."

Looking at the strategic goals of these countries, such as Saudi Arabia's Vision 2030 agenda, Hui points out that the countries are building long-term plans that aim to grow their economies, and enhance society in line with global trends around green sustainability, technology and an aging population. "They focus their planning around these challenges so that they can be well prepared infrastructure-wise or societal-wise," says Hui. "Hong Kong has long been facing the issue of a large aging population, so there's so much that we can offer in terms of experience on how to develop their health sector or biotech sector, to better serve an aging population."

According to Hui, Hong Kong has so far signed Comprehensive Double Taxation Agreements with five of the six GCC countries, bringing business sectors in both economies greater tax certainty and more incentives to conduct business or make investments.

The pitch for family offices

Showcasing the appeal of Hong Kong to global family offices, and encouraging more of them to set up here, is also important to Hui.

Around 2,700 single family offices were operating in city, as of the end of 2023, according to a market study published by Deloitte in collaboration with FamilyOfficeHK, the dedicated family offices team under InvestHK. Over half of these family offices have assets under management exceeding US$50 million. "I think it's very telling of what we already have. But, we need to do more. That's why InvestHK, through the global network, has been engaging different sectors regionally and globally," says Hui.

One of the things Hong Kong can help wealthy families do is diversify their assets. "Of course, diversification has been an eternal theme [for family offices] but I think the need for diversification is more acute now because we are facing a very uncertain, insecure world," he says. "We have a world-class financial infrastructure, be it hard infrastructure on banking, on payment settlement, etc., but also on the soft infrastructure, financial regulation, accounting standards, so on. I think this whole area of professional services provides a very solid foundation for wealth to be accumulated here. They are here not just for the short-term growth or returns, but also for generational transfer of wealth."

The inspiration behind naming the FSTB's annual summit of family offices "Wealth for Good in Hong Kong," came from recognizing the diverse needs of wealthy families, explains Hui. "It's not just about money for them. It's also about the passage of their values to the next generation, and also the appreciation of artwork, charities, and making sure it's not just returns for themselves, but also social returns to the broader community." This, he adds, plays into Hong Kong's attraction as a global family offices hub, given the city's diverse society, long-standing giving culture, and more than 10,000 registered charities.

Last year, the government outlined eight initiatives in its Policy Statement on Developing Family Office Businesses in Hong Kong. Hui describes the statement as being a "combo" of measures, reflecting the diverse needs of family offices.

Most of them have already been implemented, says Hui, including a tax concession provided to family-owned investment holding vehicles managed by single family offices in Hong Kong, and the enhanced application process for recognition of tax exemption status of charities. "It seems that right now, I receive less enquiries about that process because people have been given more certainty and more transparency on how this whole approval process is being conducted," says Hui.

The Network of Family Office Service Providers has also been launched under InvestHK, providing a two-way channel between the government and the industry.

All of the measures, he adds, come together to reinforce the robustness of Hong Kong's family office ecosystem, and to send out a key message. "They make sure that not just Hong Kong, but the whole region, even the world, will know what we can serve them as a family offices hub."

Risk-based approach

A question that Hui gets asked often is about the government's policy positioning amid a rapidly growing and volatile virtual asset industry. "People always challenge us whether there is a U-turn. But in fact, we haven't had any U-turn at all. We have been taking on a tentative path in terms of growing this segment sustainably.

"After all, it is an evolving sector, so we need to be ensuring that whatever the risk that we're going to generate from these sectors can be managed well through our financial regulation. That's why the principle that we adopt has been very consistent throughout, which is 'same risk, same regulation'."

> "This whole area of professional services provides a very solid foundation for wealth to be accumulated here."

Hong Kong's approach, says Hui, reflects an international consensus. "The emerging global consensus is that these sectors need to be regulated. And also to ensure that they are regulated in a way that investor protection will be taken into account."

While the licensing regime for virtual asset trading platforms has been implemented since last June, the government continues to gradually build a regulatory framework that covers key segments. It is currently working on licensing requirements for virtual asset operations, including over-the-counter trading services and the issuance of stablecoins.

That "same risk, same regulation" principle will continue to permeate throughout. "Virtual assets exhibit themselves in different forms – in the form of a virtual asset for trading, or virtual asset ETFs, or virtual asset futures ETFs. That's why as we try to grow this, we really look at what are the specific risks that we need to consider, and also try to regulate well to ensure that the whole sector can grow sustainably," says Hui.

"With stablecoins, we have to look at it from the payment angle to ensure that the virtual or the stablecoins being created will be underpinned by sufficient reserves, to ensure that they are well-backed by fiat currencies. This is just one of the many measures that we have in place to ensure that whatever new products that we offer to the market in the virtual asset space, there will be commensurate risk management and regulatory measures in place."

Musicians of the business world

With the view of bringing more investment opportunities to Hong Kong, the FSTB has been looking at establishing an inward re-domiciliation regime that draws in foreign companies. In July, it published the public consultation conclusion and latest legislative proposals for the company re-domiciliation regime, incorporating the views collected.

Underpinning the need for such a regime is a global trend of offshore companies facing increasing regulatory pressure to ensure that they have economic substance, Hui explains. "With the need for economic substance to be demonstrated, and with the future introduction of the global minimum tax rate, many of the companies which originally opted for re-domiciliation in these offshore jurisdictions may no longer see the benefits of doing so," he says.

To Hui, the ultimate pull factor for non-Hong Kong enterprises to transfer their domicile to the city, is Hong Kong being a robust financial and commercial centre. "Now, more than 9,000 companies with international headquarters have a presence in Hong Kong. We have very low taxation. We have very competent professionals including accountants. We have everything it takes for companies to grow and to develop their business here," he says.

Another key advantage that the regime can bring for companies is certainty on their profits tax obligations after re-domiciliation. "If they want to do their business here in Hong Kong, step into Mainland China, while domiciling their companies here, this regime will afford them much convenience, as they just have to deal with Hong Kong alone, in terms of taxation and their businesses. That's why I feel this makes a lot of sense."

One of the respondents of the consultation was the Hong Kong Institute of CPAs. Hui considers the Institute as a key source of constructive advice when forming policies to generate opportunities for the overall economy. "Accountants are like musicians who understand the notes on the scores. So in a sense, it is something needed in different industries and companies. No matter what musical instruments you play, you need the scores," says Hui.

"But not very often people know how to read the notes and interpret them in a way that will allow them to make proper investment or business decisions. So I see accountants as a very important conduit here, who are able to understand these complexities, and explain them to the business world."

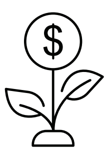
"Accountants are like musicians who understand the notes on the scores. So in a sense, it is something needed in different industries and companies."

Because of this, the accounting profession's growth and continuous relevance in the business world is immensely important to Hui. "Looking at the Accounting and Financial Reporting Council, we have entrusted them by law to develop the profession, to make sure this is one of the very missions that they have," he says. "At the same time, with the reform already in place to our accounting regulatory system, we're also very much looking to the HKICPA for more efforts in terms of enriching the talent and expertise of the sector. And, more broadly, to accountants to better leverage their expertise and experience to help us to grow Hong Kong together."

Growth of green fintech

In the financial services space, sustainable and green finance is growing in significance. And with that, Hui says that the financial services agenda is changing. "As that evolves, our fintech solutions and fintech agenda also need to evolve to serve the needs of financial services sector. And in recent years, you can see that sustainability or green finance has taken increasingly strong foothold in the financial services agenda."

It's believed that the integration



On 7 February, the Hong Kong government announced the offering of around HK$6 billion worth of digital green bonds, attracting subscription by a wide range of institutional investors globally. This marked the second digital bond issuance following the government's inaugural tokenized green bond issued in February 2023.

The theme of the upcoming Hong Kong FinTech Week 2024, organized by the FSTB and InvestHK, will focus on charting pathways, says Hui.

of green finance and fintech, or green fintech, has a significant part to play in supporting transition finance, which allows for the shift toward decarbonization. "Infrastructure or the traditional businesses also need to embrace green. And as these types of activities become more prevalent, people will ask about how they can ensure that the money going into these sectors, or these new projects, are really green," Hui explains.

This all reflects the importance of assurance certification, he adds, and therefore the role of the accounting profession. "That's why the government sees HKICPA as a very key stakeholder here. We already have HKICPA on many of our government committees to make sure the roadmap that we are going to develop on green disclosures will be something that accountants can provide assurance on," he says.

Staying relevant

Hong Kong takes the lead in green finance and innovation, highlights Hui, mentioning the government's second green bond issuance earlier this year. "Leveraging our role as an international financial centre, we've issued green bonds in multiple currencies: Hong Kong dollar, US dollar, euro, and renminbi," he adds.

However, Hui has his sight set on the future, and wants to see Hong Kong continue to be relevant in the global green ecosystem. It is why he values the professional input of the Institute, and believes that another key role the profession can play is as an ambassador for Hong Kong's green agenda. "So that regionally and globally people will be aware of what's being offered in Hong Kong, and that what we are doing is up to international standards," he says.

"After all, for a small economy like us to thrive we need to command trust regionally and globally. And trust basically is derived from the robustness of our regulation and professional standards. And here, accountants, or specifically the HKICPA, play a key role."

Hui has often seen the strengths of the profession play out when it comes to facilitating foreign investment and bringing in family offices to Hong Kong. "Many of these companies, the financial intermediaries, or even general investors, come to accountants first in terms of seeking advice about some of the fundamentals of investments," says Hui. "A lot of these business activities do carry with them risk, and a lot of the decisions accountants make are underpinned by a very articulate risk and benefit analysis. So that's why I think growing the profession, having the next generation of accountants is very important."

To young people weighing up future career options, Hui shares why he thinks accounting could be a meaningful choice. "Increasingly, with this uncertain world, people will look for an anchor, in terms of business standards and also professionalism. Accountants have always been an upholder of very high standards," says Hui.

"What you are doing here as accountants is not just something confined to your room, but carries a much broader meaning for Hong Kong's continued relevance on the global stage."

EAST
BEN
CHIN

Family offices and sovereign wealth funds are flocking to Hong Kong to tap surging opportunities along the China-Middle East corridor. Gigi Wong looks at the growth potential for certain sectors as the relationship between China and the Middle East continues to strengthen

China's Belt and Road Initiative and expanding trade ties with the Middle East have spurred investments in sectors like renewable energy, infrastructure and technology. This has led Gulf nations' sovereign wealth funds (SWFs) to substantially increase their investments in China, creating opportunities for Hong Kong to leverage its strengths as a super-connector between these key markets.

SWFs in the Middle East have two major objectives when investing in China: tapping into China's vast market potential for financial returns and gaining access to cutting-edge technologies that can accelerate the growth of their domestic non-oil sectors, says Ben Simpfendorfer, Partner at consultancy Oliver Wyman, who has experience in both the Middle East and China.

Industries like clean energy, artificial intelligence (AI) and robotics in China are high on the list, as are more traditional plays, such as selective real estate. While there is much untapped potential for Chinese investors in markets in the Middle East, and vice versa, Simpfendorfer notes some key distinctions in the strategies and approaches between the two pools of investors.

"Middle Eastern investors often look for technologies that can be put to work in the Middle East itself. Many of the region's wealthiest families have made their money by licensing or distributing foreign products domestically," explains Simpfendorfer. "That's different from Chinese investors who tend to focus more on building businesses within the Middle East market through their investments."

Gulf investments surge

In 2023, state-owned enterprises and SWFs from the six Gulf Cooperation Council (GCC) countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE), collectively poured over US$2.3 billion into the Chinese market, a staggering 23-fold rise from the previous year, according to data from Global SWF, a data platform that tracks SWFs and public pension funds.

When assessing investment opportunities in China, SWFs thoroughly research Chinese laws around foreign investment, taxation policies and industry regulations to minimize risks, according to Dustin Ball, Partner and Asia-Pacific Financial Services Strategy Leader at EY-Parthenon. This diligence is essential to

T MEETS EAST: MUTUAL EFITS OF GROWING NA-MIDDLE EAST TIES

avoid obstacles that could jeopardize an investment's success, he says.

Government support is highly appealing, Ball notes. SWFs typically seek deals that can benefit from backing from Chinese authorities, such as those aligned with national development goals or strategic priorities in sectors like fintech, healthcare and biotech, which Ball notes are seeing rising interest.

In April, global investment firm Investcorp announced the launch of a US$1 billion platform with China Investment Corporation (CIC), a SWF that manages part of China's foreign exchange reserves, to invest in high-growth companies across the GCC region and China. Targeting sectors like consumer, healthcare, logistics and business services, the platform has already made three investments in the countries of the GCC through Investcorp's Saudi Pre-IPO Growth Fund.

"SWFs often target opportunities with sizable addressable markets. This [government] endorsement provides stability and improves the chances of earning profitable returns," says Ball. "Partnering with strong local firms through joint ventures can help navigate China's intricate business environment by more easily dealing with regulatory, political and cultural dynamics," he adds.

Hong Kong's expertise

"China is a big and often confusing place for foreign investors," says Simpfendorfer, suggesting that domestic players have a natural advantage compared to international peers.

"Seek out good local private equity partners or major companies," he advises Middle Eastern investors. "Local partners understand the nuances of the market, can navigate government relations and tap existing business networks – all are critical for success."

Hong Kong-based accountants play an important role in facilitating this kind of understanding, says Simpfendorfer, as they can help Middle East investors identify opportunities, conduct due diligence on partners and navigate local regulations. "There's a huge amount of work needed to help Middle East investors move up the learning curve. That's to Hong Kong's gain," he adds.

As both a special administrative region of China and a gateway to the Greater Bay Area (GBA), Hong Kong serves as an attractive springboard for entering Mainland Chinese markets, thanks to its status as China's most international city, a robust legal system and sophisticated financial infrastructure, said the Hong Kong Trade Development

The Dubai skyline. On 16 July, Invest Hong Kong announced that it had signed a memorandum of understanding with the Abu Dhabi Chamber of Commerce and Industry of the United Arab Emirates, pledging mutual cooperation on investment promotion exchanges and support.

Council (HKTDC) in a written statement.

Hong Kong pegs its currency to the US dollar, reducing exchange rate risk for major trading partners in the Gulf. The city also has a well-established, trusted reputation for commercial mediation and dispute resolution, which are essential functions for smooth international trade, according to InvestHK's Associate Director-General of Investment Promotion Charles Ng.

The recent establishment of the International Organization for Mediation in Hong Kong, combined with unique enforcement recognition between Hong Kong and Mainland Chinese courts, gives Middle Eastern companies greater certainty when pursuing expansion opportunities across Hong Kong, says Ng.

Government cooperation between Hong Kong, Mainland China and the Middle East has also taken off. In 2023, agreements between the Saudi Central Bank and the Hong Kong Monetary Authority (HKMA) aimed to promote financial innovation by collaborating on regulatory approaches. On top of a landmark strategic partnership between China and Saudi Arabia, Hong Kong's Chief Executive signed 13 memorandums of understanding with their Saudi and UAE counterparts.

Hong Kong's accounting and auditing professionals have much to offer SWFs and other investors from the Middle East looking to capitalize on the city's financial expertise, according to Dr. King Au, Executive Director of the Financial Services Development Council (FSDC), and government-appointed lay member of the Institute's Council.

"Hong Kong accounting firms have deep capabilities in areas like initial public offerings (IPOs), fundraising and portfolio management — all are of interest to institutional investors in the Middle East," Au notes. Furthermore, mapping out and streamlining regulatory differences between Hong Kong and various Middle Eastern countries would be essential, he says.

"Middle Eastern investors have shown interest in Hong Kong's mega projects, such as the Northern Metropolis, with the government exploring the establishment of an infrastructure bond scheme for public subscription."

Firms such as EY-Parthenon, for example, works closely with Middle Eastern companies to establish successful presences in Hong Kong and Mainland China. This includes ensuring regulatory compliance through services such as company incorporation, applications for licenses and permits, and ongoing reporting, explains Ball.

Family offices eye Hong Kong

Hong Kong has seen surging interest from family offices in the Middle East looking to establish or expand their presence in the region. This comes as the Hong Kong government has made attracting and facilitating family offices a policy priority.

As of May 2024, the FamilyOfficeHK team under InvestHK has assisted 89 family offices in establishing or expanding their businesses in Hong Kong, with an additional 136 family offices confirming their intention to set up operations, some of which originate from the Middle East, according to Polly Tang, Senior Vice President, FamilyOfficeHK, and an Institute member.

"Hong Kong's strategic position as a gateway to China has been a significant draw for family offices, particularly for those interested in technology investments in cutting-edge fields like artificial intelligence, data science, and fintech. The city's vibrant fintech sector has garnered growing interest, driven by demand for innovative cross-border payment solutions to facilitate the region's trade flows," says Tang. "Additionally, Middle Eastern investors have shown interest in Hong Kong's mega projects, such as the Northern Metropolis, with the government exploring the establishment of an infrastructure bond scheme for public subscription."

Lured by large real estate developments and IPOs, as well as the ability to partner with local firms, high-net-worth individuals and wealthy families can benefit from what Hong Kong has to offer, says Ng.

With over HK$30.5 trillion in locally managed assets, Ng observes that the city's wealth and asset management industries give wealthy investors access to Hong Kong's well-established expertise in private banking, investment and related fields.

CPAs play a key role in helping these wealthy families from the Middle East in a number of ways, notes Tang. "From our past experiences, many Middle Eastern high-net-worth individuals would have complex financial structures involving multiple jurisdictions. Hong Kong CPAs are skilled in managing these complexities, providing clarity and strategic advice to optimize asset protection and tax planning."

The global experience of CPAs is also valuable. "In the design of equity investment structures, CPAs can utilize their professional experience in Hong Kong, Mainland China, the Middle East, and other jurisdictions to comprehensively consider factors such as tax incentives, tax treaties and regulatory requirements, so as to achieve the overall optimization of structure," Tang adds.

Sustainable Islamic investing

As the economic and financial ties between Hong Kong and the Middle East continue to deepen, Islamic finance presents an attractive opportunity for growth. Islamic finance refers to financing activities that comply with Sharia (Islamic law) and its religious prohibitions on interest, uncertainty and gambling.

Yet, Islamic law differs significantly from Hong Kong's common law system, making cross-border banking processes complex and time-consuming. "Regulatory compliance with Islamic finance in the Middle East can be unfamiliar territory for many Hong Kong companies," Au says.

This is where professional accountants and auditors can come in, says Au, to guide companies in understanding regional rules and requirements, reviewing contracts, handling day-to-day administration and navigating cross-border operations smoothly.

Islamic finance shares many of the same principles and goals as sustainable investing. At its core, it's about generating shared and equitable prosperity for all stakeholders.

The oil-rich nations of the Middle East are "eager to become the largest providers of renewable energy to meet their ambitious climate targets and reduce reliance on oil and gas," the Hong Kong General Chamber of Commerce told *A Plus*.

Attracting foreign investment is a key part of Saudi Arabia's "Vision 2030" plan. Saudi Arabia, the largest economy in the Gulf region, launched the plan in 2016 to transform its economy from oil-dependent to one driven by modern, digital industries and services, with a focus on boosting its nuclear and renewable energy capacity and production of clean hydrogen and electric vehicles.

The UAE, the second largest Gulf economy, has parallel goals under its Net Zero by 2050 strategic initiative. As part of this, the country has earmarked US$160 billion for renewable energy investments to help achieve carbon neutrality by 2050.

The Middle East's national commitment to sustainability and religious emphasis on corporate social responsibility has made clean technology and renewables in China high on the list of priorities. "China is a leader in the sector, valuations are reasonable, and Middle East investors are less likely to be concerned with geopolitical tensions," Simpfendorfer says.

As a premier hub for green bonds and other climate-focused financial instruments, and with its large pool of skilled professionals supported by robust financial infrastructure, Hong Kong possesses the capabilities to finance many of the major energy transition projects underway across the Middle East, according to Au.

Enhancing food security

For many Middle Eastern countries, a near-term challenge is their dependence on food imports, as they import more food than they export, making their food systems vulnerable to supply chain disruptions. The need for agricultural technology (agritech) solutions became stark during the COVID-19 pandemic.

According to PwC, Saudi Arabia imported US$10.5 billion worth of key agricultural and food products in 2019 while only exporting US$1.7 billion, resulting in a US$8.8 billion trade deficit. Crop yields in the Middle East are also significantly lower than global averages due to climate change impacts like soil salinity and limited access to resources such as arable land, water and agricultural labour.

> **"As a premier hub for green bonds and other climate-focused financial instruments… Hong Kong possesses the capabilities to finance many of the major energy transition projects underway across the Middle East."**

In a bid to enhance long-term food security and develop more sustainable, productive agricultural sectors, there are opportunities for Hong Kong to help bridge the gap in helping the Middle East adopt cutting-edge agritech at scale.

Despite the small size of domestic agriculture, higher education institutions in Hong Kong have developed strong expertise across the agritech field, from crop genomics research to analytical food testing, said the HKTDC.

There is untapped potential for Hong Kong agrictech companies and trained workforce to export their knowledge and services. The Middle East is one promising export market where Hong Kong's agritech experts can commercialize their research while aiding the development of local farming, added the HKTDC.

Flourishing digital economy

The digital economy in the Middle East is expected to grow exponentially from US$180 billion in 2022 to US$780 billion by 2030, according to estimates from UBS.

However, digital penetration rates in the region remain well below global levels, at just 4.1 percent in 2022 compared to 10.5 percent worldwide, indicating huge potential in software, internet and data centres as the Middle East works to close this gap, as per UBS analysis.

This presents an opportunity for Hong Kong's robust innovation ecosystem to engage with the region. Ng says that InvestHK has observed growing interest from the Middle East in Hong Kong's vibrant fintech sector, driven by demand for innovative cross-border payment

The city of Doha, home of the Qatar Financial Centre Authority, which signed in May a memorandum of understanding with the Financial Services Development Council to strengthen ties between Hong Kong and Qatar's financial sectors. Qatar's economy was worth US$236.6 billion in 2022.

solutions to facilitate the region's trade flows.

Hong Kong-based companies have found success partnering with local organizations in the Middle East to expand into new markets.

In 2009, Octopus helped launch Dubai's "nol" contactless smart card system to support the expansion of the UAE's transportation infrastructure. Over 47 million "nol" cards have since been issued, processing an average of two million daily transactions.

Meeting local operational and compliance needs was key to this success, according to Nora Tang, General Manager of Technical Department and International Projects at Octopus, who discussed the project with HKTDC.

"When a company enters uncharted waters, the local business partner can lead the way and facilitate business negotiations, particularly for an overseas company with a totally different religious or cultural background," says the HKTDC. "With the help of a local business partner, a company can win the trust of local people more easily and business negotiations can run more smoothly."

Opening new avenues

As economic ties between the Middle East and China continue to grow, Simpfendorfer expects significant investment opportunities to emerge as a result. "SWFs and larger investors will set up financial platforms that invest in multiple companies across a range of geographies, and then find synergies between those investments," he says.

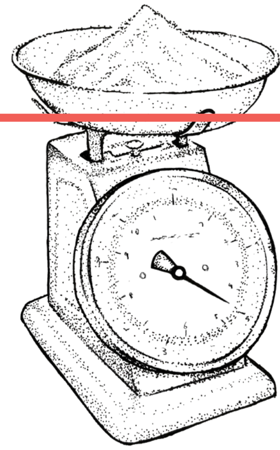
More Middle Eastern investors will acquire Chinese firms, using hubs like Dubai or Riyadh to then launch those companies into the broader Middle East and African markets, Simpfendorfer adds.

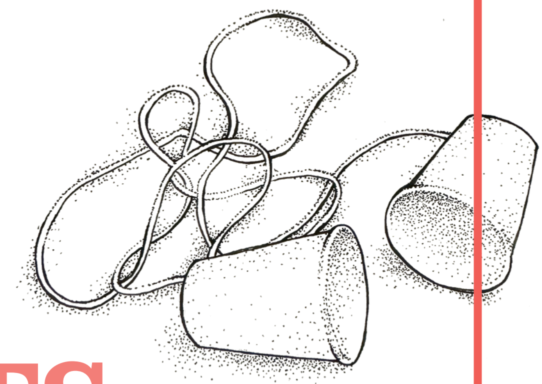
Under a new strategic partnership agreement signed in May, the FSDC and Qatar Financial Centre Authority will conduct joint capacity building initiatives, share regulatory updates and market insights, and organize promotional events to pursue win-win opportunities.

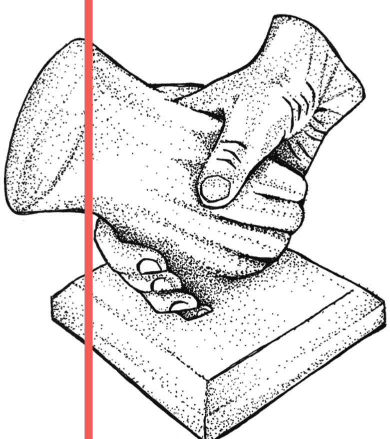
The Qatar Financial Centre acts as the country's business and financial hub, providing a competitive operating environment to attract international firms. "Together, we can drive positive change and contribute to the continued advancement of the financial services industry," says Yousuf Mohamed Al-Jaida, Chief Executive Officer of Qatar Financial Centre, in a press release.

"Around 50 delegates from 35 Hong Kong fintech and financial firms joined the Middle East delegation led by the Financial Services and the Treasury Bureau, FSDC and InvestHK in May. Quite a number of them have engaged in follow up discussion with potential clients and partners in the region afterwards," says Au. "We are constantly learning from each other and this really opens up great chances for Hong Kong to showcase its superior connectivity."

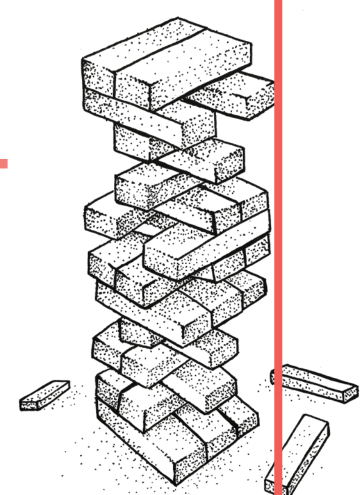
In February 2023, during a visit to the Middle East region, a Hong Kong business delegation led by Hong Kong's Chief Executive signed 13 memorandums of understanding and letters of intent with Saudi Arabia and United Arab Emirates organizations.





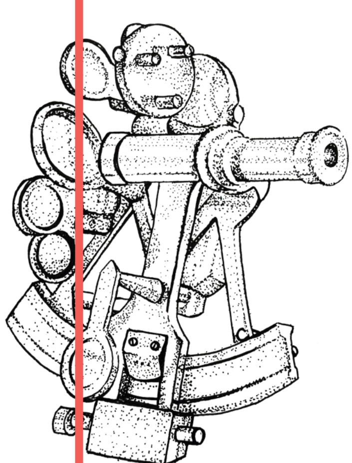


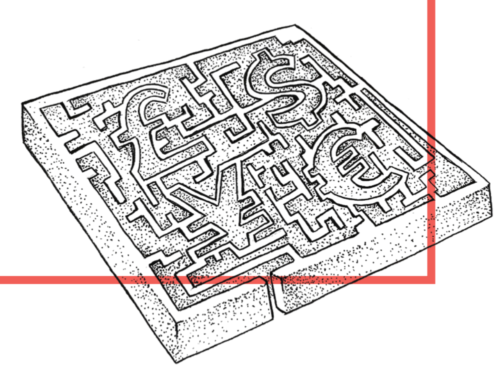
EXPERTS IN UNLOCKING VALUE

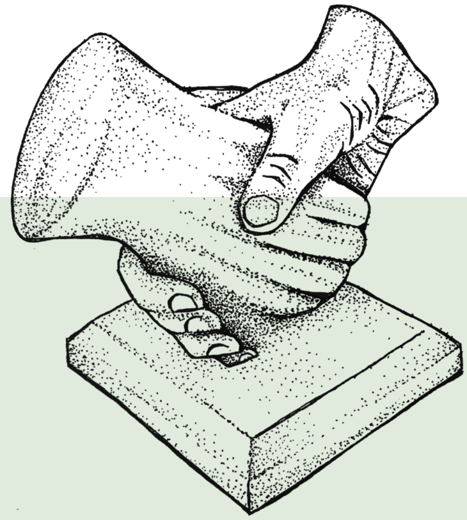


A Plus talks to Institute members who initiate, build or refine investment strategies that align with the dynamic business landscape

Illustrations by Alexa Chan







The dealmaker

Merger and acquisition (M&A) activity is considered an important indicator of the health of the economy and provides insight into how organizations recalibrate their business strategies to stay competitive. ***M&A consultants*** *meticulously assess market dynamics, evaluate target opportunities, and mitigate potential risks for companies seeking to improve their market position or expand their product range.*

Q&A with Shawn Han

Shawn Han, M&A Consultant at Well Blue Advisory (HK) Ltd.

What does a typical day look like for you?
In the morning, I will organize project materials, which includes finding suitable target customers, conducting company background checks and organizing meeting minutes. As most of my clients are in Europe, meetings with clients are usually in the afternoon given the time difference. If I am on a business trip, I will arrange visits to target companies alone. If both the target company and the client are willing to carry out an M&A deal, I will visit the company more with the client to promote the project.

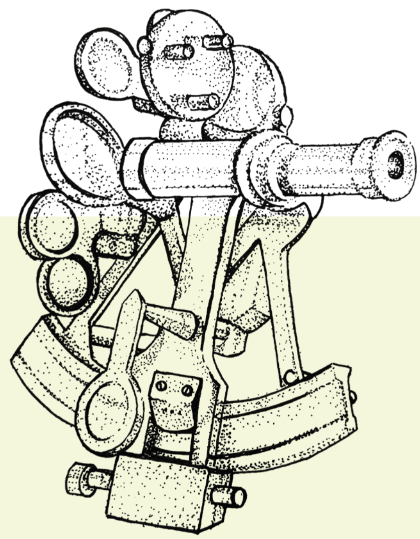
What are the challenges of your role?
I mainly work on the buy-side of M&A. The main challenge is finding suitable corporate targets for clients in Mainland China. With clients that are foreign companies, I need to explain in detail the differences between Chinese and foreign industries, help them adjust the M&A standards, and find suitable targets in a practical way. After finding the target, I need to explain the synergy of the M&A to both parties for the deal to go smoothly. This involves a lot of industry and financial analysis, the evaluation of corporate prices, and designing transaction structures.

What are the opportunities of your work?
I can work with management in different industries and consider M&A and market entry opportunities from the perspective of corporate development strategies. This involves having in-depth communications with the CEO or CFO of the company, which is a rare opportunity. At the same time, I have to deal with a large number of companies in different industries, understand the development trends of the industry, the different SWOT of each company, and have detailed discussions with the bosses of target companies.

What key trends or threats are having a major impact on your work?
With the political developments affecting China and the United States relations, some industries have seen a decrease or stagnation in cross-border M&As. However, I mainly focus on certain industries that use M&A as a means of expansion, and are relatively less affected by political and economic factors. As government reviews of cross-border M&As become stricter, deals in the areas of national security, confidentiality, and energy face challenges, which require M&A consultants, clients, and lawyers to work together.

What are your current priorities as an M&A professional?
My main goal is to serve my clients as well as possible, complete M&A projects as quickly as possible within a limited time, and serve my clients well in the subsequent post-merger integration to add value to the synergy of the enterprise. Establishing long-term cooperative relationships with my clients is another focus of mine, as well as bringing in new M&A opportunities for myself by actively proposing appropriate M&A opportunities and directions to my clients.

How did the Qualification Programme (QP) prepare you for this role?
The QP corporate finance knowledge allows me to reasonably analyse a company's valuation and the feasibility of future development. Being a CPA also gives the client confidence in my professional ability.



The strategic navigator

*With a close eye on market forces, such as government policy and geopolitical events, and solid strategic thinking skills, **investment professionals** make investment recommendations, conduct analysis, or advise on investment strategies. CPAs in this area can utilize their accounting and audit background to address accounting issues related to diverse financial instruments within investment portfolios.*

Q&A with Ryan Mak

Ryan Mak, Regional Head of Investment Planning, Controlling and Reporting at Assicurazioni Generali S.p.A. – Asia Regional Office

What does a typical day look like for you?
Typically, my workdays begin with providing updates on the performance of financial markets in the Asia region, which our group covers, to the senior management team. I promptly address any questions they may have. The remainder is occupied by meetings with colleagues from different departments and work streams across our group, regional and local offices, revolving around strategic initiatives, projects, and day-to-day investment management operations.

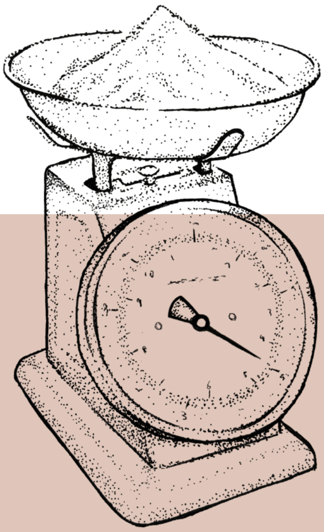
What are the challenges of your role?
A significant challenge is effectively positioning ourselves to address the frequent changes in requirements initiated by various stakeholders. Our group is committed to continuously improving information exchange and dataflow processes and hence my role is to ensure successful implementation of these changes across local offices, so that stakeholders in our group, regional and local offices are well-informed to make strategic decisions. Consequently, we must have a comprehensive understanding of the operations and practices in different local offices which could be changing frequently.

What are the opportunities of your work?
Engaging with senior management and actively participating in strategic meetings and discussions involving departments from our group, regional and local offices has given me invaluable insights from diverse perspectives. This has strengthened my strategic thinking and critical reasoning skills, ultimately enhancing my decision-making abilities. Working in a regional office role also exposes me to different cultures, which enables me to compare and learn from colleagues in various offices, as well as incorporate best practices to enhance the effectiveness and efficiency of my work.

What key trends or threats are having a major impact on your work?
In recent years, the growing geopolitical tensions in various regions and the volatility in global financial markets have emerged as significant threats that greatly impact my work. These factors have the potential to create adverse effects on our management of investment portfolios in the Asia region. It is crucial for us to promptly assess and respond to significant events, ensuring that relevant stakeholders are well-informed in a timely manner which facilitates informed decision-making regarding management actions.

What are your current priorities as an investment professional?
A primary focus of mine is to support our local offices in improving the risk-adjusted investment returns of their portfolios. Simultaneously, it is essential to ensure that our support given to local offices can fulfill our group's commitments regarding environmental, social and governance initiatives and sustainable investments.

What key advice do you have for CPAs?
Having a growth mindset as a CPA serves as the foundation for continuously adapting to the steep learning curve in investment management. This includes areas such as asset and liability management, and strategic and tactical asset allocation.



The benchmarker

***Business valuation specialists** could discuss the value of a client's company with its CFO, provide an expert witness report about a fair and reasonable valuation for a business under commercial dispute, or assist a start-up seeking private equity investment to determine a fair range of pre-money valuation. Understanding the business, and performing a comprehensive analysis of the financial statements, are equally important.*

Q&A with Max Tsang

Max Tsang, Director of Valtech Valuation and Consulting

What does a typical day look like for you?
On a typical day, I review financial models, provide guidance to the team, and join technical discussions regarding accounting standards and key valuation judgements. I also answer clients' queries on valuation, and may take part in valuation model development in new markets such as valuation for tokenization. If I have spare time, I explore ideas with my team on new functions, training materials, or tools to add to our valuation app.

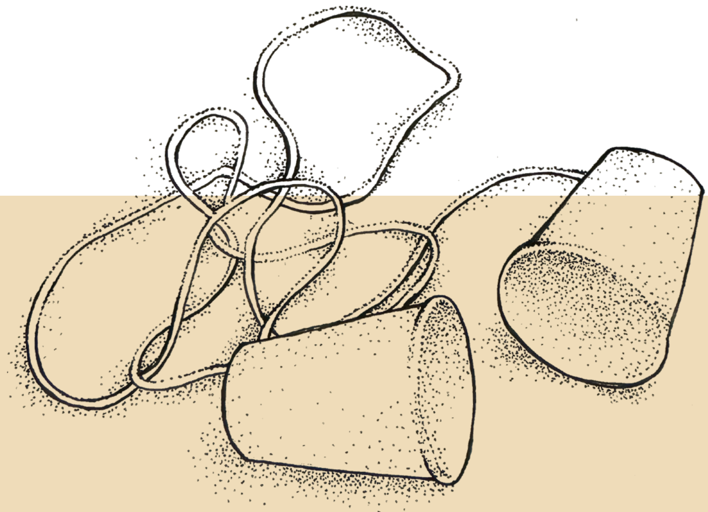
What are the challenges of your role?
A challenging yet satisfying aspect of my job is performing valuations on portfolios for fund managers or securities firms. For example, when valuing a typical Series B preferred share invested by a private equity fund, we start with the fundraising history and conduct empirical research on mass data, applying industry-based market approach techniques. At the same time, equity allocation using option pricing models is necessary to address the fact that different classes of shares, having different priorities and rights, should have different values, even though their values will be the same upon a successful IPO. The challenge increases when we encounter special cases like a target company teetering on the edge of default.

What are the opportunities of your work?
It is common for us to value companies in industries that are in the spotlight, for example, electric vehicles and related businesses, artificial intelligence (AI) applications, biotechnology, and digital asset service providers. As these industries attract capital and draw market attention, valuation demand arises. With the growth of Hong Kong's asset management industry, we see increased demand from fund managers, family offices, and investment arms of established corporations for regular support.

What key trends or threats are having a major impact on your work?
The biggest threat is not AI itself, but how seriously people take valuation. An example of not being serious is giving AI an instruction like, "Based on the information provided about my business, generate a valuation report and justify its worth of US$50 million." When people are not interested in critically assessing the reasonableness of the valuation process or disclosures supporting the valuation result, the value of our work will diminish.

What are your current priorities as a valuation professional?
My next target is acquiring the valuation license in Mainland China by passing the two remaining exams. I am inspired by studying the differences between the valuation systems and practices in Mainland China and International Valuation Standards. This pursuit comes from my desire to become an all-around valuation expert. Secondly, I am eager to explore ways to expand Valtech's business operations to other financial hubs.

What key advice do you have for CPAs?
CPAs have an obvious advantage in practising valuation due to their understanding of how a financial statement is compiled and how consolidation is done. They have a better sense of drilling down items and notes. Basic quantitative skills are essential in valuation, and an interest and skills in spreadsheet modeling will be necessary to enter the field.



The master communicator

*Today, more than ever before, investors or stakeholders are having in-depth discussions with **investor relations (IR) professionals** on a broad range of topics. Those in IR roles must stay up to date on changing market dynamics, and understand the long-term strategies of a company, with a focus on enhancing liquidity.*

Q&A with Mark Lam

Mark Lam, Head of Investor Relations & Corporate Sustainability at Hongkong Land Limited

What does a typical day look like for you?
I would start with a breakfast meeting with sustainability consultants, then have a coffee catch-up with the team. I would draft board papers and report back to the C-suite on the latest investor interactions, and collaborate with colleagues, giving input on key initiatives from an investor relations or sustainability perspective. I could have a lunch meeting with prospective investors, then work with colleagues to execute regular portfolio tours for prospective investors.

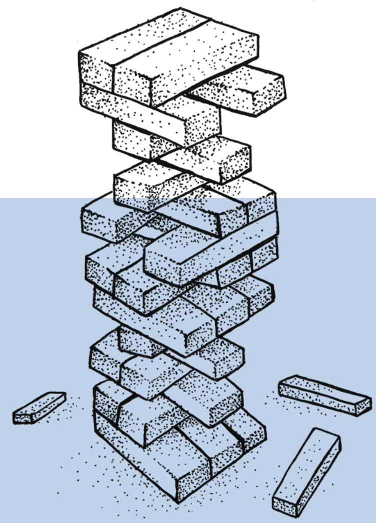
What are the challenges of your role?
Most public companies are inherently complex. In order to ensure that I, and the IR function overall, can speak to specific queries or issues, building and maintaining strong relationships with colleagues as well as ensuring my market knowledge is up-to-date is critical. Another challenge is that investors are wanting to spend more time with the C-suite and/or IR to discuss industry trends, as well as company-specific strategies on business, capital allocation and sustainability. The topics discussed are very diverse. One minute we are discussing the Hong Kong luxury retail market and the next we are talking about the potential avenues Hongkong Land has to achieving its 2030 science-based targets.

What are the opportunities of your work?
Explaining first-hand to investors or stakeholders the fine work done by colleagues across the organization, allows us to cut through the "noise"of the press. Also, taking the time to build genuine relationships with investors and stakeholders allows us to better understand the thinking, priorities of our investors to facilitate proper planning, which allows us to respond to their needs.

What key trends or threats are having a major impact on your work?
There are two major trends. Not only do investors expect more frequent interactions than in the past, but they are also looking for more in-depth and frank discussions. Another trend is that the range of topics discussed have become broader, moving beyond the financials. These days, investors or stakeholders tend to scrutinize not only the business results but how we do business.

How did your training as a CPA prepare you for this role?
Financial literacy is critical to IR work. As professionals in this space, we are expected to be able to discuss everything from macro issues and trends impacting the business to the origins of a specific financial or ESG-related disclosure. In addition, as companies look to further integrate ESG considerations into their operations, and consider ESG-related risks and opportunities in a more holistic manner, my training as a CPA helps me to bridge different perspectives when communicating with key stakeholders.

What key advice do you have for CPAs?
Those thinking about a career in IR should devote time to develop their skills and feel comfortable speaking about topics outside of finance such as business strategy, industry trends, sustainability trends and performance. There is a growing global trend of placing CPAs with prior experience in senior or external facing roles in IR positions.



The risk expert

*The role of a **due diligence analyst** is a dynamic one, requiring professionals to stay up-to-date on market developments and maintain a keen eye for details and red flags. They often focus on conducting thorough research and analysis to support the onboarding of new investment products and match products to the client's risk appetite.*

Q&A with Crystal Wong

Crystal Wong, AVP, Product Due Diligence Analyst at DBS Bank (HK) Limited

What does a typical day look like for you?
It involves performing product due diligence on various investment products such as bonds, equities, bancassurance, funds, and structured products. A key part of my day is reviewing new onboarding product requests, among which bond and equity are often time-sensitive. This includes reviewing product documentation to assess the risk factors, redemption terms and coupon structure of the products. My goal is to provide appropriate risk ratings, taking into account the key products features and risk factors, to the product managers in a timely manner.

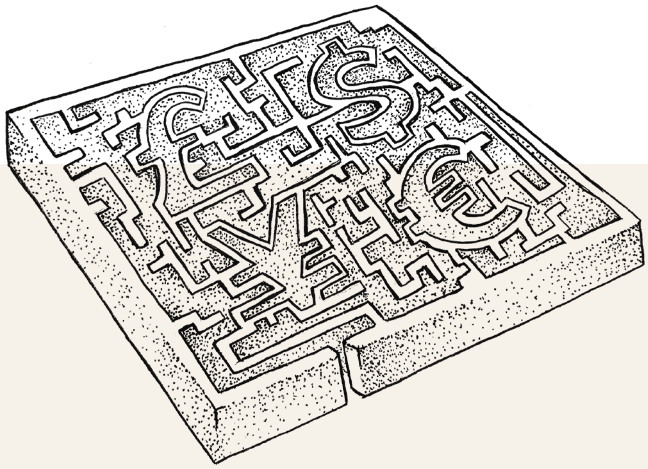
What are the challenges of your role?
I find balancing the interests of a wide range of stakeholders to be a challenge. For example, a new product approval (NPA) process usually involves different teams including risk management, technology and operational or compliance. Each has their own perspectives and risk considerations in the NPA process. Therefore, I have to invest time to explain the process, consolidate their advice, understand their specific areas of focus and risk considerations. Reconciling the varying priorities and risk appetites of all stakeholders can be a delicate balancing act. My goal is to align everyone on the appropriate risk profile, so that I can proceed to the final stage with the collective sign-off within a reasonable timeframe.

What are the opportunities of your work?
Through my work, I've gained a broad understanding of market trends, particularly how different investment products perform in varying interest rate environments. This allows me to stay alert to the evolving preference and appetites of our retail and private banking clients. Additionally, navigating the NPA process has given me unique opportunities for cross-functional collaboration. Navigating interpersonal and interdepartmental complexities has been invaluable for my professional growth.

What key trends or threats are having a major impact on your work?
The prevailing market conditions have undoubtedly had a major impact on my work. Investors are seeking more green products that do not only generate positive financial returns, but also align with their values and sustainability goals. This has broadened the portfolio with more green investment product offerings, requiring robust due diligence to validate their impact and authenticity.

What are your current priorities as a due diligence professional?
My primary focus is to conduct a detailed assessment of the investment products' risks factors, return, and key features from our client's perspective. It is important to assess and match the investment product with a suitable target market. This can be done through careful consideration of the clients' investment objectives, time horizon, and risk appetite to match their profiles with a wide range of products on shelf.

What key advice do you have for CPAs?
Develop a holistic, risk-focused mindset. This role requires a broad understanding of the business, industry and regulatory environment. With a keen risk management mindset, you'll be able to identify and address risk from the bank's and client's point of view.



The local guide

When it comes to inbound and outbound investments, ***tax professionals*** *will know best practices for managing cross-border tax issues, and can help companies identify tax-efficient structures and strategies to minimize tax liabilities and ensure compliance. CPAs in this area are equipped with up-to-date knowledge, helping them navigate the dynamic global tax landscape*

Q&A with Cecilia Hung

Cecilia Hung, Tax Director at Moore Tax Services Limited

What does a typical day look like for you?
In addition to routine Hong Kong tax compliance work, I also deal with ad hoc tax enquiries on proposed restructuring, inbound and outbound investments, cross-border due diligence projects etc., which may require extensive liaison and collaboration with member firms in other jurisdictions with different time zones. Checking emails is typically the first thing I would do, and that gives me an idea of what I would need to handle on that day.

What are the challenges of your role?
Planned work alongside ad hoc calls and meetings means our work can be full of challenges. We normally work on several projects at the same time, in addition to the compliance work. The ever-changing global tax environment, particularly the implementation of the two-pillars under Base Erosion and Profit Shifting (BEPS) 2.0 keeps us busy. There have been quite a number of important changes to Hong Kong tax laws in recent years. We need to consider the implications on our clients and take necessary actions.

What are the opportunities of your work?
Tax is a cost of investment. Investors should know what their options and the related tax costs are before making decisions. To a certain extent, through a tax-efficient holding structure, investors could lower the tax cost on dividend repatriation and the profit derived at the time of exit in a legitimate way, and hence get a higher investment return. This is how tax professionals add value to investment strategies. Because of the dynamic global tax environment and recent changes to Hong Kong tax laws, there is increasing demand from multinational enterprise groups and local entrepreneurs for advice on the potential tax implications and restructuring. Taxpayers are paying more attention to tax issues nowadays as Hong Kong tax is not that simple as it used to be.

What key trends or threats are having a major impact on your work?
There are now more tax issues in Hong Kong, as well as other jurisdictions, in relation to cross-border investments, that need to be considered in view of the newly implemented foreign-sourced income exemption (FSIE) regime, tax certainty enhancement scheme for onshore disposal gain on equity interest, concessions for family office, the expanding treaty network, BEPS 2.0, etc.

What are your current priorities as a tax professional?
The FSIE in Hong Kong and tax rules concerning BEPS 2.0 are our main focuses. These would affect the holding structure of a new investment as well as an existing investment since Hong Kong has been a traditional investment holding platform for multinational enterprises for many years. With tax in general, it costs you less if you put things in the right position in the first place.

How did your training as a CPA prepare you for this role?
My training has given me the skills to easily communicate with colleagues and clients with different professional backgrounds. I have also benefited from the annual tax conferences and seminars organized by the Institute covering hot tax topics.

Melissa Fung

The Consulting Business, Southern Region Managing Partner at Deloitte, and member of the Institute's Sustainability Committee, on the right approach to implementing green supply chain practices and moving beyond a compliance mindset

Why green supply chain

Over 3,000 global companies and financial institutions are responding to the Science Based Targets initiative (SBTi) to reduce their carbon emissions based on climate science, with those who have formulated SBTi targets accounting for 35 percent of global market capitalization. The doubling of SBTi members last year indicates that setting science-based targets will become a common practice for large organizations in the future.

This is not simply an issue about climate, but a broader trend where society is calling on organizations to make bold commitments to sustainable development. Many organizations are taking the initiative to incorporate sustainable goals in their operations, even if they may not fully comprehend the path towards sustainability.

Ambitious carbon reduction goals can only be achieved through end-to-end transparency from design, procurement to manufacturing and distribution. To avoid greenwashing, organizations must stay transparent throughout their carbon reduction targets journey.

Supply chain challenges

Carbon emissions associated with supply chains (referred to as Scope 3 emissions) can make up 65-90 percent of an organization's total carbon footprint. However, without a clear supply chain management system, it can become challenging for organizations to understand how to approach supply chain management and implement effective emission reduction changes. When organizations consider the sustainability of their supply chain, they should strengthen their management to consider the following factors:

Expanding areas of sustainability-related concerns: Companies are prone to new sustainability risks and expectations (carbon, water, waste, biodiversity, etc.), which will broaden the extent of coverage over their supply chain monitoring and reporting.

Increasingly refined disclosure requirements: Regulatory bodies have coincidentally concluded that companies are required to disclose more information about their supply chains, including the proposed Scope 3 reporting requirements by the United States Securities and Exchange Commission, the European Union's Corporate Sustainability Reporting Directive and its Carbon Border Adjustment Mechanism, as well as the Hong Kong Exchanges and Clearing Limited's new climate disclosure requirements.

Higher expectations for assurance: An increasing number of both local and international investors and stakeholders expect environmental, social and governance (ESG)-related information disclosures to undergo independent third-party assurance.

To ensure that organizations are fulfilling their commitments and obligations, they need to establish a transparent supply chain system, and partner with capable suppliers who are willing to disclose information to them in an innovative manner.

Focusing on organizations' "real" performance

Organizations should step out of the mentality of solely following a compliance-focused assessment logic, and placing excessive emphasis on document reviews with the belief that as long as the right documents are provided, they are likely to "pass the assessment." Currently, with the proliferation of corporate carbon reduction commitments, there is a growing public interest in organizations' ESG performance. Improvement of data availability and more systematic government supervision are also driving the trend towards better and more accurate assessment and disclosure. In essence, the increasing ambition of organizations and the intensification of external scrutiny are driven by the understanding that compliance does not automatically equate to goal achievement. The public no longer places trust solely on evaluation results derived from document reviews, prompting organizations to make changes accordingly and focus more on the true performance of suppliers.

Furthermore, should organizations continue to rely solely on document reviews despite being aware of its constraints, they may be exposed to public criticism and pressure due to their lack of action and greenwashing practices.

How to build a sustainable supply chain?

Firstly, organizations should formulate strategies and goals for sustainable supply chains and incorporate sustainability assessments into supplier management. Suppliers, in turn, need to make prompt adjustments and adopt cost-saving approaches to reduce use of materials, energy, chemicals, water and other resources. Such requirements should also be relayed down the value chain, from clients to sub-suppliers to ensure consistency of information.

Suppliers often perceive that implementing sustainable development plans require substantial financial support, and that it comes with significant risks. In reality, they may lack accurate data analysis and insights to help them seize the opportunities and take prompt and appropriate actions. Hence, many suppliers will require support from larger and more experience partners.

Secondly, it is imperative for organizations to set forth transparent standards and monitoring guidelines. This requires greater investment in both manpower and resources to promote supplier awareness, setting new supplier standards, and facilitate suppliers' certification under the new criteria. Suppliers also need to actively cooperate and disclose accurate information according to the standards.

Finally, it is crucial for organizations and suppliers to explore ways to incorporate the concept of circular economy into their product design and procurement workflow, for example investigating feasible ways to recycle old products for repair and reuse, or upcycling to minimize resources wastage.

In conclusion, a strategic approach is crucial for enhancing the sustainability of the supply chain, for which risks and opportunities are identified, and action priorities can then be finalized based on their related impacts, feasibility analysis and financial viability. This strategic approach enables the development of optimal solutions, which encompass risk assessment and response, procurement practice adjustments, exploration of new supply chain partners, supplier audit monitoring, and support for suppliers in taking actions while maintaining current production capacity or profitability.

SECOND OPINIONS: HOW CAN FAMILY OFFICES OVERCOME DUE DILIGENCE CHALLENGES?

FRANK LAM
ASSURANCE SERVICES DIRECTOR AND LEADER OF FAMILY OFFICE AT BDO HONG KONG, AND INSTITUTE COUNCIL MEMBER

The family office industry has experienced tremendous growth in recent years, particularly in Asia's financial hubs like Hong Kong and Singapore. This rapid expansion has created new risks and challenges. Given the private nature of family offices' operations and wealth, complexity of their investment and holding structures, and the low entry barrier of setting up the family offices, the industry faces the growing threat of fraudulent market players and fake or exaggerated beneficial owners and it would ultimately undermine the confidence of the investment communities and the image of the general public towards family offices.

While conducting a thorough background check is a critical first step to verify if the family offices are really who they claim to be, there are some voices from the market highlighting the need to step up the scrutiny of family offices. We understand that the regulator in Singapore has imposed stricter requirements including an account with a local private bank and disclosures of personal details of ultimate beneficiaries and relevant staff members of family offices.

While stricter rules and increased scrutiny for family offices are prudent measures to maintain the integrity and legitimacy of this rapidly expanding industry, we have to bear in mind that wealthy families naturally tend to maintain privacy and keep a low profile of their investment activities. Any need to disclose extensive family information may not align with their intention of setting up of their single family offices. Therefore, we urge Hong Kong to adopt a more balanced approach for family offices. Drawing inspiration from existing know-your-customer (KYC) procedures for banking services could provide a template for enhancing transparency without overly infringing on the confidentiality that family offices often seek to preserve. By striking this balance, Hong Kong can fortify its position as a premier financial hub, attracting legitimate family offices while safeguarding against fraudulent entities.

The rapid growth of the family office industry in Asia's financial hubs highlights the importance of proactive measures to ensure the legitimacy of the participants and preserve investor confidence. While navigating the complex regulatory landscape in Hong Kong poses challenges, a multifaceted approach to enhanced due diligence can help family offices mitigate risks and capitalize on investment opportunities. This needs to be balanced with respecting the privacy preferences of the wealthy families, for instance by adapting the existing KYC frameworks. By striking the right balance, Hong Kong can foster a thriving and trustworthy family office ecosystem that safeguards assets and supports long-term growth. *(Leo Li, Principal of Family Office and Jenny Cheung, Manager of Family Office at BDO, contributed to this response.)*

"While navigating the complex regulatory landscape in Hong Kong poses challenges, a multifaceted approach to enhanced due diligence can help family offices mitigate risks and capitalize on investment opportunities."

DIXON WONG
MANAGING PARTNER, OAKWISE CAPITAL AND FAMILY OFFICE, AND AN INSTITUTE MEMBER

The Singapore government's intensified scrutiny of family offices stems from anti-money laundering cases that began to be investigated in 2021. As the investigation deepens, the amount involved has reached over a billion Singapore dollars and there are still criminals at large. This has a great impact on Singapore's rule of law and status of an international financial centre.

In the long term, the current strengthening of review and supervision, aimed at improving financial transparency and combating illegal financial activities, is a necessary step to protect the health of the industry, prevent fraud, and maintain financial stability. On the other hand, the current over-the-top censorship and regulatory attitude of the Singapore government has indeed brought some challenges and inconveniences to the banking industry and ultra-high-net-worth families interested in setting up family offices in Singapore. For example, increased financial and compliance costs for new applications and existing family office operations may inhibit and interrupt the willingness and plans of single-family offices to choose to set up in Singapore.

"The current strengthening of review and supervision... is a necessary step to protect the health of the industry."

The situation highlights the importance of due diligence and record-keeping in this industry. However, compared with mature family offices in developed markets, many newly established family offices in Hong Kong and Singapore in recent years have encountered difficulty in investment due diligence, easy investment but difficulty in investment recovery, and insufficient risk control. When faced with complex market environments and investment opportunities, they often face challenges including the following:

- *Limited channels for obtaining information:* Due to information asymmetry, it is difficult for family offices to obtain complete and accurate target company data.
- *Difficulties in verifying the financial authenticity of the investment target:* Financial risks and crises require professional financial knowledge.
- *Examining the internal risk control system:* The company's control environment, risk identification and assessment, control activities and measures, information communication and feedback, supervision and evaluation mechanisms are all key to evaluating the company's internal risk control system.

Overall, by leveraging the specialized expertise and services of the accounting profession, family offices can overcome various due diligence challenges, enhance their investment decision-making processes, and mitigate risks more effectively.

CLEMENT SIU
DEPUTY MANAGING PARTNER, GLOBAL VISION CPA LIMITED, AND AN INSTITUTE MEMBER

With Singapore being a key competitor to Hong Kong in terms of attracting wealth owners and family offices, the recent actions by Singaporean authorities are poised to have ripple effects within Hong Kong's family offices sector. This heightened scrutiny poses both challenges and opportunities for the industry.

Single family offices, with their private and intricate structures, can serve as conduits for illicit activities. Strengthening scrutiny is vital in mitigating the risks associated with money laundering. By imposing stricter oversight measures, governments not only ensure compliance with regulatory requirements but also foster transparency and accountability within the financial sector.

Upholding high standards of financial integrity and regulatory compliance can bolster the reputations of both Singapore and Hong Kong as global financial centres. This can attract legitimate businesses and investors while deterring those with malicious intent, safeguarding the interests of investors and the financial system.

However, it is imperative to ensure that regulatory measures are proportionate, balanced, and do not unduly burden legitimate businesses or hinder innovation and growth within the financial sector.

"It is imperative to ensure that regulatory measures are proportionate, balanced, and do not unduly burden legitimate businesses or hinder innovation and growth."

Family offices typically collaborate with various professionals, including lawyers, accountants, and investment consultants, professionals who are well-versed in anti-money laundering (AML) laws and regulations. As professional accountants in Hong Kong and Institute members, we can play a crucial role in assisting family offices with their due diligence challenges. For instance, as an experienced auditor, I possess key characteristics essential for these tasks:

- *Knowledge and expertise:* I have a deep understanding of applicable laws, regulations, and industry practices related to AML and stay updated on any changes.
- *Analytical skills:* My ability to assess complex financial information enables me to identify anomalies and errors in wealth histories provided by family offices, uncover discrepancies within financial records, and make informed judgements.
- *Attention to detail:* My meticulous approach ensures accurate and reliable reviews of documentation, especially when red flags are identified.
- *Professional scepticism:* This mindset helps me to question information, seek corroborating evidence, and exercise judgement in due diligence processes.

FIVE QUESTIONS FOR PAIB
James Cheung

James Cheung, General Manager – Corporate Finance at Century City Group, which core businesses include property development, and hotel operation and ownership, on his work involving participation in the planning and implementation of corporate transactions

What are the biggest lessons in your career so far? One has been the importance of positivity. Accountants are generally responsible for corporate financial exercises which are sometimes challenging, as they require attention to detail and interaction with diverse stakeholders, and occasionally lead to frustration and unhappiness. Positive thinking helps to enhance self-motivation and foster a can-do attitude, which has also been essential in my career. A CPA with a strong can-do attitude will be given more opportunities to take on new roles and jobs, as well as obtain positive appraisals or even promotions.

What do you like most about your role? My current role is very exciting as I participate in the planning and implementation of corporate transactions involving business acquisitions, investments and divestments, and debt and equity financing. It often takes weeks to prepare the preliminary work, negotiate with counterparties, and interact with professional parties to facilitate the execution of transactions. My team members and I must devote a considerable amount of time and effort to close every transaction. It's encouraging after a transaction is done and disappointing if the deal is called off. Many unexpected difficulties and hurdles which arise in the course of implementing a transaction have to be overcome within a very short period.

How have your previous experiences prepared you for your current role? My previous work experience in the private and public sectors involved key financial functions comprising financial control and reporting, budgeting and forecasting, financial analysis, taxation and treasury. Frequent interactions with senior management and fellow colleagues with diverse backgrounds have enhanced my flexibility and adaptability in dealing with duties and jobs, and also strengthened my capability in coping with challenges, which are indispensable in pursuing a career in the corporate finance field.

How optimistic are you about the revival of the property and hotel markets in Hong Kong and Mainland China? It is expected that it will take years for the local property market to restore momentum because the interest rates are anticipated to be maintained at a high level unless the United States Federal Reserve swiftly cuts interest rates. But I remain optimistic about the property market in the long run as the Hong Kong government has released property cooling measures to stimulate demand in residential units and commercial properties in order to avoid further decline in property values. Since the government has spent abundant financial resources to support tourism and encourage various parties to host international events to attract visitors for sightseeing and doing businesses, I believe the overall prospects of the hotel market remains positive, particularly once the number of visitors from the Mainland returns to the pre-pandemic level.

In what ways has your CPA training helped you in your career? It has provided me with learning opportunities to gain not only fundamental accounting and finance knowledge but also analytical and soft skills, which have built up my confidence in dealing with various tasks under different positions, and with different parties. After about 25 years of working in accounting and finance, I believe that the CPA qualification will always be recognized by employers in every sector.

FIVE QUESTIONS FOR PAIP

Tiffany Wong

Tiffany Wong, Managing Director at Alvarez & Marsal, on winning the award for 2024 Woman of the Year in Restructuring in April, and how trusting in intuition can be a valuable leadership skill

What are the biggest lessons in your career so far? One is the importance of setting realistic goals. Earlier in my career, I tended to overextend myself. Once, I juggled so many papers and work that I failed an exam, which came with serious consequences. Nowadays, I prioritize work-life balance as it ensures my team and I maintain a sustainable pace and, ultimately, better quality work. It's truly the only way to a sustainable career.

You were named 2024 Woman of the Year in Restructuring by The International Women's Insolvency and Restructuring Confederation (IWIRC). What does the award mean to you? Receiving this award is an honour, not only because it recognizes professionals in this field from around the world, but also because it represents a positive step for women in Hong Kong. I hope my work, especially some of my projects involving high-profile clients, might inspire other women to pursue and excel in restructuring and insolvency. This is because I know my appointment as one of the liquidators of the China Evergrande Group is a key factor behind IWIRC's decision.

What major challenges have you faced in your career? The most challenging moments in my career have been when I feel limited by my own abilities. In accounting, logic is essential. However, I've found that, when overcoming obstacles, my best decisions often stem from a balance of logic and intuition. Understanding my strengths and weaknesses, while allowing my intuition to drive me forward, has been key to making impactful choices.

What key advice do you have for young CPAs in this specialism or those thinking to pursue a career in restructuring and insolvency? When I was a junior, I asked my boss the same thing and he said, "Be persistent." After 25 years in this field, I can tell you he was right. Restructuring and insolvency often takes years, not weeks to see results. It's not for everyone. If you prefer a more structured environment, auditing or tax might be a better fit. If you are interested in quick deals, maybe consider M&A and IPOs. But if you're curious about unwinding the history of a company and understanding its inner workings, then this is the field for you. It requires persistence, a deep understanding of business, and a commitment to finding the best outcome for creditors.

What are your predictions for the future of restructuring work? I believe there will be an increase in formal insolvency and liquidation procedures compared to consensual restructuring in the future. This is because the consensual restructuring discussions of a number of large companies have been ongoing for over a year already. If little progress has been made in agreeing on the terms of a restructuring, it is likely that the liquidity position of these distressed companies has worsened over the past 14 months. As creditors start losing patience and confidence in the viability of an informal process, the filing of winding-up petition against debtors becomes more likely.

In what ways has your CPA qualification helped you in your career? Having a CPA qualification has been invaluable in my career. It definitely opens a lot of doors and provides assurance of my professional skills. These skills enable me to make an initial diagnosis on the financial health of a business when I speak with clients, and the ongoing training ensures I stay current with the ever-changing landscape of the field.

HKFRS 18: a paradigm shift in financial performance presentation

An overview of the new accounting standard, HKFRS 18 *Presentation and Disclosure in Financial Statements*

In July, the Institute issued Hong Kong Financial Reporting Standard (HKFRS) 18 *Presentation and Disclosure in Financial Statements*, the equivalent of International Financial Reporting Standard (IFRS) 18 *Presentation and Disclosure in Financial Statements* issued by the International Accounting Standards Board (IASB). HKFRS 18 replaces Hong Kong Accounting Standard (HKAS) 1 *Presentation of Financial Statements.* It introduces new requirements that affect all entities in all industries as to how they present and disclose financial performance in financial statements. Requirements in HKAS 1 that are unchanged have been transferred to HKFRS 18 and other HKFRSs. HKFRS 18 is effective for annual periods beginning on or after 1 January 2027, but entities can apply it earlier. Entities are required to apply HKFRS 18 retrospectively.

Key new requirements in HKFRS 18

HKFRS 18 introduces three sets of new requirements to improve entities' reporting of financial performance and give investors a better basis for analysing and comparing entities.

1. Statement of profit or loss

To improve the structure of the statement of profit or loss, HKFRS 18 introduces three new defined categories: operating, investing and financing (the categories in the statement of profit or loss have different meanings to those in the statement of cash flows) for classifying income and expenses, and requires entities to present two new defined subtotals (operating profit and profit before financing and income taxes).

The **operating category** is the default category and consists of all income and expenses that are not classified in any of the other categories. This means that the operating category includes, but is not limited to, income and expenses from an entity's main business activities regardless of whether they are volatile or non-recurring.

The **investing category** includes income and expenses from assets that generate returns separately from an entity's business activities, and from cash and cash equivalents as well as investments in associates, joint ventures and unconsolidated subsidiaries.

Examples of income and expenses that will be classified in the investing category are:

- Share of profit of associates and joint ventures accounted for using the equity method;
- Rental income and fair value gains or losses of investment properties;
- Interest income and fair value changes on debt securities; and
- Dividends and fair value changes on equity investments.

The **financing category** includes income and expenses on liabilities arising from transactions that involve only the raising of finance, such as bank loans and bonds, and interest expenses on any other liabilities, such as lease and pension liabilities.

The diagram on page 33 shows the structure of, and subtotals in, a statement of profit or loss for most entities that do not have a specified main business activity and present some operating expenses by function and some by nature.

Entities with specified main business activities

HKFRS 18 includes additional classification requirements for entities with specified main business activities, i.e. entities that provide financing to customers (e.g. banks) or that invest in assets as a main business activity (e.g. insurers, real estate companies). Such entities would classify in the operating category the income and expenses that would otherwise be classified in the investing or financing categories by most entities. HKFRS 18 also includes accounting policy choices regarding the classification of certain income and expenses for entities with specified main business activities.

Classification of specific income and expenses

Foreign exchange differences

HKFRS 18 requires entities to classify foreign exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences. For example, foreign exchange differences on bank loans are classified in the financing category. If classifying foreign exchange differences this way involves undue cost or effort, entities are permitted to classify foreign exchange differences in the operating category.

Other specific income and expenses

HKFRS 18 also includes specific requirements for classifying fair value gains and losses on derivatives, and income and expenses from hybrid contracts. The classification of fair value gains and losses on derivatives depends on whether the derivatives are used to manage exposure to identified risks and whether they are designated as hedging instruments. The classification of income and expenses from hybrid contracts comprising host liabilities and embedded derivatives depends on whether the embedded derivative is separated from the host liability and the nature of the hybrid contract.

Impact on entities

- The classification of income and expenses varies depending on an entity's main business activities. Entities will need to carefully assess their main business activities and consider whether they are engaged in specified main business activities.
- Entities will then need to analyse the structure of their statement of profit

Diagram: Statement of profit or loss for most entities

Categories	Income statement
Operating	Revenue
	Cost of sales
	Gross profit
	Other operating income
	Selling expenses
	Research and development expenses
	General and administrative expenses
	Goodwill impairment loss
	Other operating expenses
	Operating profit
Investing	Share of profit and gains on disposal of associates and joint ventures
	Profit before financing and income taxes
Financing	Interest expense on borrowings and lease liabilities
	Interest expense on pension liabilities and provisions
	Profit before income taxes
Income taxes	Income tax expense
	Profit from continuing operations
Discontinued operations	Loss from discontinued operations
	Profit

(Source: IASB's project summary of IFRS 18 issued in April 2024)

or loss and assess how their current presentation may need to change.

- Entities with large volumes of derivatives and foreign currency-denominated items may incur additional costs and efforts to classify foreign exchange differences and derivatives in the relevant categories of the statement of profit or loss.
- Entities may need to make decisions on their accounting policies in some cases, e.g. the classification of certain income and expenses for entities with specified main business activities.
- The change of the structure of statement of profit or loss may impact entities' current reporting practices, internal processes and accounting systems.

2. Management-defined performance measures (MPMs)

HKFRS 18 defines MPM as a subtotal of income and expenses other than those listed by HKFRS 18 or specifically required by HKFRSs, that an entity uses in public communications outside financial statements, and to communicate to investors management's view of an aspect of the financial performance of the entity as a whole. Examples of MPM include adjusted profit, adjusted operating profit, adjusted earnings before interest, taxes, depreciation and amortization.

HKFRS 18 requires entities to disclose MPMs in a single note, including:

i) A reconciliation between the measure and the most directly comparable subtotal listed in HKFRS 18 or total or subtotal specifically required by HKFRSs, including the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation;
ii) A description of how the measure communicates management's view and how the measure is calculated;
iii) An explanation of any changes in the entity's MPMs or in how it calculates its MPMs; and
iv) A statement that the measure reflects management's view of an aspect of financial performance of the entity as a whole and is not necessarily comparable to measures sharing similar labels or descriptions provided by other entities.

Impact on entities

- Entities that have been communicating with external users using "non-generally accepted accounting principles (GAAP)" measures will need to assess whether these non-GAAP measures meet the definition of MPMs, which will now be reported in the financial statements and subject to audit.
- Entities that already communicate using measures that are MPMs are likely to incur costs in providing the reconciliation and determining the income tax effect and the effect on non-controlling interest for each adjusting item. Entities may need to develop or revise the internal processes they use for preparing the reconciliation.
- As a result of the new disclosure requirements, entities may want to revisit their external communication strategies using MPMs.

3. Grouping of information

HKFRS 18 provides guidance for entities on grouping transactions and other events into the line items in the primary financial statements and information disclosed in the notes. Entities are required to:

Table: Classification of interest and dividend cash flows in the statement of cash flows

Cash flows	Entities without specified main business activities	Entities with specified main business activities
Interest received	Investing activities	A single category for each item, either operating, investing or financing. The classification will be impacted by the classification of the related income and expenses in the statement of profit or loss.
Interest paid	Financing activities	
Dividends received	Investing activities	
Dividends paid	Financing activities	Financing activities

i) Aggregate items that have similar characteristics, and disaggregate items that have different characteristics;
ii) Group items in a way that does not obscure material information or reduce the understandability of the information presented;
iii) Use meaningful labels or descriptions for aggregated items, and use the label "other" only when entities are unable to find a more informative label; and
iv) Place items in the primary financial statements and the notes to fulfil their complementary roles.

HKFRS 18 requires an entity to present the operating category expenses based on their nature or their function. Entities that present expenses classified by function are required to disclose in the notes the amount of depreciation, amortization, employee benefits, impairment losses and write-downs of inventories included in each line item in the operating category of the statement of profit or loss.

Impact on entities

- Entities will need to revisit and adjust their internal reporting systems and processes to ensure compliance with the aggregation and disaggregation requirements, as well as to capture relevant information to satisfy the additional disclosures on the five specified operating expenses by nature.
- Entities will need to use a more informative label for items labelled as "other" in the financial statements, e.g. other expenses/income, other receivables/payables, or to disclose further information about these items.

Other changes introduced by HKFRS 18

Certain narrow scope consequential amendments have been made to HKAS 7 *Statement of Cash Flows* to improve comparability. These amendments include:
i) Requiring entities to use the operating profit subtotal as the starting point for reporting cash flows from operating activities using the indirect method; and
ii) Removing the accounting policy choices for classifying interest and dividend cash flows. Entities will classify their interest and dividend cash flows as shown in the table above.

In addition, certain requirements from HKAS 1 have been moved to HKFRS 7 *Financial Instruments: Disclosures* and HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* These requirements include:
i) The disclosure requirements for puttable financial instruments classified as equity;
ii) The concepts of true and fair view and compliance with HKFRSs;
iii) Whether an entity is a going concern;
iv) The accrual basis of accounting; and
v) Disclosure of an entity's selection and application of accounting policies.

To better reflect the amended content of HKAS 8, the title of HKAS 8 will be changed to *Basis of Preparation of Financial Statements*.

Implementing HKFRS 18

The implementation of HKFRS 18 will have a broad impact across various entities and industries. To prepare for this change, entities are encouraged to start preparing for the implementation as soon as possible. Entities are advised to read the new standard thoroughly and assess its effect on their operations and reporting. The IASB has provided useful technical resources, such as illustrative examples, project summary and effects analysis, to support the implementation process. These materials, together with additional support from the Institute, are available on the Institute's HKFRS 18 Presentation and Disclosure in Financial Statements webpage. Additionally, the Institute plans to offer educational sessions to help entities navigate the key aspects of the new requirements and the considerations for Hong Kong entities in general as well as for specific industries. Entities should stay tuned for these upcoming educational sessions and get in touch with the Institute's Standard Setting Department through the Technical Enquiry system if they have any questions with implementing HKFRS 18.

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

Institute's response to the proposed IESSA

An overview of the Institute's response to the IESBA's Exposure Draft on Proposed IESSA

In May, the Institute's Standard Setting Department responded to the International Ethics Standards Board for Accountants (IESBA) Exposure Draft on Proposed International Ethics Standards for Sustainability Assurance (IESSA) (ED-IESSA). Overall, the Institute supports the development of the ED-IESSA aimed at maintaining public trust in providing sustainability assurance. However, challenges in implementation are expected. The IESBA expects to approve the final pronouncement by December 2024.

Profession-agnostic

We highlighted to the IESBA that the ED-IESSA is especially relevant where sustainability information is increasingly becoming important for multiple stakeholders when service providers outside of the accounting profession play a role in sustainability assurance. For the ED-IESSA to be effective, it is crucial to have a well-established framework in place for sustainability reporting and assurance similar to the reporting and audit of financial statements. Besides, the ED-IESSA can only truly be profession-agnostic in practice if there is a robust and effective monitoring and enforcement system that is implemented consistently across both professional accountant practitioners and non-professional accountant practitioners (non-PAs). We suggested that the IESBA coordinate with regulators and global accreditation bodies to promote the consistent use of a global framework of high-quality ethics standards for sustainability assurance.

NOCLAR

The ED-IESSA requires practitioners to discuss non-compliance with laws and regulations (NOCLAR) matters with the appropriate level of management and, where appropriate, those responsible for governance if they identify suspected instances of NOCLAR. Given that practitioners may be engaged to provide limited assurance for only a limited portion of the clients' sustainability information and sustainability assurance may be obtained on a voluntary basis, the compliance efforts required to adhere to the NOCLAR provisions could potentially place an undue cost on the practitioners. Therefore, we recommended that the IESBA provide more non-authoritative materials such as case studies to illustrate the expected work effort involving a limited assurance engagement versus that of a reasonable assurance engagement.

Value chain entity

The ED-IESSA requires the practitioner who performs assurance work at the value chain entity of the sustainability client to be independent of the value chain entity which we consider to be excessive and disproportionate in the context of a sustainability assurance engagement. This is particularly the case when (i) value chain entity is not the reporting entity of the sustainability information, (ii) the number of value chain entities involved may be significant, and (iii) the extent of work performed at each value chain entity may be limited where limited assurance is provided on a limited scope of sustainability information. While we acknowledge that the decision on whether to provide assurance on the value chain entity is a matter that falls under the purview of the International Auditing and Assurance Standards Board's (IAASB) proposed International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*, we recommended the IAASB and the IESBA to cooperate to address this area considering current practice and the evolving scope of sustainability assurance. In addition, we highlighted that the threats arising from the relationships between the firm, a network firm, or a member of the sustainability assurance team and a value chain entity are low due to their remote relationships. Hence, we do not perceive any necessity to include the "knows or has reason to believe" principle as proposed in the ED-IESSA.

NAS

We expressed our concern that implementing the non-assurance services (NAS) provisions at the same time as the other fundamental principles within the ED-IESSA may result in unintended consequences in reducing the pool of practitioners that will be available to clients, as a practitioner who intends to provide sustainability assurance in future years cannot provide certain NAS to the same client as currently proposed by the ED-IESSA. This is particularly relevant in the current market where there are already limited quality sustainability assurance providers and where the majority of clients seeking sustainability assurance are public interest entities (PIEs). Accordingly, we recommended that the IESBA incorporate transitional arrangement in implementing the relevant provisions of the ED-IESSA.

Fee-disclosures

The ED-IESSA requires that where a sustainability assurance client that is a PIE does not disclose the sustainability assurance fee-related information (fee-disclosures), practitioners should publicly make such disclosures. Due to the absence of jurisdictional mandatory regulations for such fee-disclosures, practitioners may face challenges when making the requests to their clients as clients may perceive the primary responsibility for complying with the ED-IESSA lie with the practitioners rather than with the entities. Therefore, we suggested that the IESBA consider providing some relief such as starting off with encouraging the fee-disclosures as best practice before transitioning them into requirements over time.

Effective date

Though we are supportive of aligning the effective date of ED-IESSA with ISSA 5000, there is a concern as to whether the regulatory framework and enforcement regime for non-PAs will be ready in time. Consistent regulatory oversight is necessary to establish a level playing field, allowing investors and other users to confidently rely on sustainability assurance reports. The full response is available on our website.

*This article was contributed by **Cherry Yau**, Associate Director of the Institute's Standard Setting Department.*

TECHNICAL NEWS

The latest standards and technical development highlights

Members' handbook updates
Handbook Update No. 311 relates to the issuance of Hong Kong Financial Reporting Standard (HKFRS) 18 *Presentation and Disclosure in Financial Statements*.

HKFRS 18 introduces the following three sets of new requirements to improve entities' reporting of financial performance and give investors a better basis for analysing and comparing entities:

- Presentation of new defined subtotals in the statement of profit or loss;
- Disclosures about management-defined performance measures; and
- Enhanced requirements for grouping (aggregation and disaggregation) of information.

Please also refer to Update No. 312 and Update No. 313, which relate to the amendments to Chapter A of the Institute's *Code of Ethics for Professional Accountants* and Narrow Scope Amendments to Hong Kong Standard on Auditing (HKSA) 700 (Revised) and HKSA 260 (Revised).

Financial reporting

Institute submission
The Institute has submitted its comment letter on the International Accounting Standards Board (IASB) Exposure Draft *Business Combinations – Disclosures, Goodwill and Impairment: Proposed amendments to International Financial Reporting Standard (IFRS) 3 Business Combinations and International Accounting Standard 36 Impairment of Assets.*

Latest developments on financial instruments
The IASB has concluded its Post-implementation Review (PIR) of the impairment requirements in IFRS 9 *Financial Instruments*. Overall, feedback and research carried out during the PIR show that the impairment requirements in IFRS 9 are working as intended and provide useful information to users of financial instruments. For details, please refer to the Project Summary and Feedback Statement. In response to the feedback, the IASB will explore whether requirements for modification, derecognition and write-off of financial instruments, and the consequential effects on recognition of expected credit losses, can be clarified as part of its project on Amortized Cost Measurement.

The IASB has also issued amendments to the classification and measurement requirements in IFRS 9. The amendments respond to feedback from the 2022 PIR of the Accounting Standard and clarify the requirements in areas where stakeholders have raised concerns, or where new issues have emerged since IFRS 9 was issued.

Auditing and assurance

Institute submission
The Institute has submitted its comment letter on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft on Proposed International Standard on Auditing 240 (Revised) *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.*

ISA for LCE Auditor Reporting Supplemental Guidance
The IAASB has released supplemental guidance on auditor reporting which provides assistance for auditors about modifications to the auditor's report when using the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE). The guidance also includes information on using emphasis of matter and other matter paragraphs, reporting on other information, and reporting on a material uncertainty related to going concern.

The ISA for LCE anticipates relevant local bodies with standard-setting authority to determine quantitative thresholds for use of the ISA for LCE in their respective jurisdictions. In view of this, the Institute's Auditing and Assurance Standards Committee is considering the applicability of the ISA for LCE in a local context and will follow the due process for adoption in Hong Kong.

Recent publications from IFAC
The International Federation of Accountants (IFAC) has published a number of new resources that may be of interest to its members.

- *IFAC's Vision for High-Quality Sustainability Assurance*
- *Sustainability Assurance: What to Expect*
- *Rising to the Challenges of Sustainability: New Opportunities for Supporting Small Businesses*

AFRC publications
The Accounting and Financial Reporting Council (AFRC) has published the below publications in relation to achieving audit quality:

- *Setting and Reinforcing Tone at the Top to Achieve Quality Audits*
- *Roundtable Discussion on Audit Quality and Climate-integrated Audits in Hong Kong*

The AFRC has also published several documents that outline important issues in auditing and emphasize the aspects that require careful consideration when performing audit engagements:

- The Importance of Audit Documentation Integrity
- Audit Focus Effective Planning: The Key to High-Quality Audits (Press release)
- 2023 Financial Year-end Audit Reminder

Audit sampling and how to improve it
Based on the thematic review of audit sampling, this article by the Institute of Chartered Accountants in England and

Wales explores what the findings mean for smaller firms and highlight some opportunities to enhance audit sampling.

Ethics

HKICPA resource centre
The Institute's Resource Centre to the Code has been updated to incorporate technical resources on *Revisions to the Code Addressing Tax Planning and Related Services*, which will be effective in July 2025. The resource centre includes a wide range of resources and publications that will keep you updated on the latest ethics pronouncements.

Tax planning and related services
The International Ethics Standards Board for Accountants released the ethics standards on tax planning and related services effective for tax planning activities or tax planning services beginning after 30 June 2025. These standards establish a comprehensive ethical framework to guide professional accountants when providing tax planning and related services.

Navigating the Gen AI revolution: Implications for the accounting profession
This IFAC's article highlights how Generative Artificial Intelligence (Gen AI) is transformative and consequential. It discusses the advent of AI and its capabilities, its benefits and risks, as well as its implications for the profession, particularly from the ethics angle.

Sustainability

GRI and IFRS Foundation collaboration to deliver full interoperability that enables seamless sustainability reporting
In response to market demand, the International Sustainability Standards Board (ISSB) and the Global Sustainability Standards Board will collaborate to optimize how ISSB Standards and the Global Reporting Initiative (GRI) standards can be used together. An initial outcome of this collaboration will involve a methodology pilot that builds on the recently published GRI 101 *Biodiversity Standard* and the ISSB's upcoming project on Biodiversity, Ecosystems and Ecosystem Services.

Jurisdictions representing over half the global economy by GDP take steps towards ISSB Standards
Jurisdictions representing over half the global economy by gross domestic product (GDP) have announced steps to use the ISSB Standards or fully align their sustainability disclosure standards with those of the ISSB. To help jurisdictions in designing and planning their adoption or other use of ISSB Standards, the IFRS Foundation has released the publication *Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards,* which shows how jurisdictions are progressing towards delivering globally consistent and comparable sustainability-related information.

ISSB delivers further harmonization of the sustainability disclosure landscape as it embarks on new work plan
At the IFRS Foundation Conference 2024, Emmanuel Faber, ISSB Chair, announced further harmonization of the sustainability reporting landscape as the ISSB embarked on its new two-year work plan and published the Feedback Statement on that work plan.

Webinar series and webcasts: sustainability disclosure
The IFRS Foundation is launching a new series of monthly webinars to help preparers and other capital market participants worldwide ease their transition to using IFRS Sustainability Disclosure Standards. This webinar series complements the other resources published by the IFRS Foundation.

The IFRS Foundation has also published two new webcasts to help explain the requirements in the IFRS Sustainability Disclosure Standards related to the current and anticipated effects of sustainability-related risks and opportunities on a company's financial position, financial performance and cash flows.

Corporate finance

Institute responses to SFC consultation on proposals to enhance REIT regime and SFO market conduct regime for listed CIS
The Institute issued a submission in response to the Securities and Futures Commission (SFC)'s consultation paper seeking market feedback on a statutory scheme of arrangement and compulsory acquisition mechanism for real estate investment trusts (REITs) and an enhanced market conduct regime for listed collective investment schemes (CIS) under the Securities and Futures Ordinance (SFO).

Corporate governance

Exchange issues Consultation Paper on Corporate Governance Code Enhancements
On 14 June, the Stock Exchange of Hong Kong Limited (Exchange) issued a consultation paper seeking market feedback on its proposed enhancements to the Corporate Governance Code and related Listing Rules. The deadline for responding to the consultation paper is 16 August. Please refer to the press release for details.

Insolvency

Revision of Panel A Rules
The Official Receiver's Office has further revised the Panel A Rules introducing provisions on safeguarding national security. The revised Panel A Rules came into effect on 17 June 2024.

Professional Conduct and Duties of PIPs
The Official Receiver's Office has issued a letter for the attention of members who are private insolvency practitioners (PIPs). The Official Receiver would like to draw to PIPs' attention to, in particular, the comments made by the court in its two recent judgments concerning the conduct of PIPs, and to remind PIPs of the fundamental duties of full and frank disclosure in all insolvency proceedings. Further details are contained in the letter.

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

JERICA CHAN

Regional Finance Manager at Bausch and Lomb

Photography by Anthony Tung

Jerica Chan, Regional Finance Manager at optical products brand Bausch and Lomb, talks to *A Plus* about career-launching internships, and how managing remote international teams can sometimes require a shift in a manager's own style

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

As a Regional Finance Manager at Bausch and Lomb, I am responsible for the financial reporting and internal control functions of the Asia-Pacific region. As part of my routine duties, I usually coordinate communications between the corporate office in the United States and various local finance teams across the region, acting as a bridge to allow us to work together. I also partner with different operating units, such as sales and marketing, supply chain, IT, quality assurance, compliance, and human resources, and provide financial support to the business. I enjoy being part of a caring work environment. I also find the company's commitment to eye care inspiring, and I am glad to play a role in an organization that is helping others to see better and live better.

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

People management has been the most challenging so far as it involves working with people of different cultures and backgrounds. When I first joined the company taking up the regional position, I spent a considerable amount of time building up relationships with respective local teams from 12 different markets, including Australia, India, Japan, South Korea, Malaysia, Mainland China, Thailand, etc., to understand their working styles. Every team has their own practices, ideas and unique knowledge about the local markets which is crucial to the business. My job is to ensure everyone is working towards the same goal and delivering the end products with a consistent and high quality standard. Taking the example of collecting data for analysis, I would usually tailor the communications for different teams, particularly those without accounting knowledge. Throughout the process, I find that it is beneficial to me to strengthen my interpersonal skills and enhance my business and accounting knowledge in relation to different markets.

What inspired you to become an accountant?

It was my mother who suggested that I should pursue an accounting career in my first year of university, in view of the stable career path it could offer me. I started majoring in accounting in my second year and interned at a local firm and the Big Four. These internship experiences reinforced my determination to go for accounting as my future career. I was impressed by the training, the mentoring scheme, and most importantly the supportive working environment in the audit firms. They provided me valuable insights into the profession. I am truly grateful to the people who offered me guidance and coaching in these practical and hands-on learning experiences. After graduating from university, I rejoined the audit firm to attain my professional qualification.

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

I would like to continue working in financial reporting, as it's one of fundamental elements of the finance and accounting function, and further develop my skill set. Nowadays, with the help of technology advancements, more transactional work are automated, and data integrity has improved. Finance and accounting functions have therefore become more analytical and process efficiency-focused. I hope to leverage my knowledge obtained from financial reporting to further provide more insight to data analysis as well as review the process efficiencies that add value to the business.

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

Through my time working and collaborating with different people, a key takeaway for me is that effective communication is important all the time for exchanging experience, knowledge and needs. Even when we have different views and perspectives, agreements can be worked out through good communication. From my managers, I observed that hard work, critical thinking and emotional intelligence are the common characteristics of a successful accounting professional. We need to keep ourselves up-to-date with industry trends and knowledge to respond rapidly to the dynamic industry needs. Having critical thinking is essential in problem resolving. Managing our emotions and maintaining a positive attitude can motivate us to work better, even under pressure. Finally, being passionate about what we are doing leads to a sense of self-fulfillment.

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

Working in-house in the finance department, I continue to apply the knowledge I gained through the modules in reviewing the financial information and evaluating internal controls. The knowledge from module B and D specially equipped me with a certain sense and understanding of corporate financing and taxation. This enables me to work efficiently with other departments on different business projects, such as merger and acquisition, spin-off, working capital management etc.

China Taxation Conference 2024: Panel insights

Expert panellists explored current Mainland and cross-boundary tax issues, from GBA tax policies to the complexities of transfer pricing, at the Institute's annual conference

The Institute's China Taxation Conference 2024, held on 1 June, brought together leading experts in taxation to discuss a range of current Mainland and cross-boundary tax issues, including developments in the Greater Bay Area (GBA). A panel discussion, moderated by Sarah Chan, Chair of the Taxation Faculty Executive Committee (TFEC) and Tax Partner at Deloitte China, featured experienced panellists who shared their insights on the integration of the GBA and the implications of international tax developments.

The panellists included Jane Hui, member of the Taxation Faculty China Tax Support Group (CTSG) and Leader of the China Tax Centre, as well as Partner in International and Transaction Tax at Ernst & Young Tax Services Limited; Kenneth Leung, Leader of Supply Chain and Indirect Tax at KPMG China; Cecilia Lee, member of the CTSG and Hong Kong Transfer Pricing Leader at PwC Hong Kong, China; and Vicky Wong, Institute Council member and member of the TFEC, and Tax Director at China Resources Enterprise Limited.

Tax incentives and compliance challenges

Chan opened the discussion by highlighting the significance of tax incentives in the GBA and the need for companies to be cautious about compliance with the eligibility criteria to avoid future liabilities.

Providing a corporate perspective, Wong emphasized the importance of self-assessment mechanisms. She noted that companies often face difficulties in interpreting tax policies and ensuring compliance, explaining that, without clear guidelines, there are potential risks of retroactive tax assessments that can impact cash flow.

Hui added that thorough pre-assessment is crucial. She shared that while many clients have expressed eagerness to relocate operations to benefit from tax incentives across GBA, she stressed that business operations must align with tax planning to avoid compliance issues. Hui also highlighted the importance of the continuous monitoring of business operations to ensure ongoing eligibility for tax benefits.

Interaction with tax authorities

Chan posed a question about the interaction between tax professionals and tax authorities. Leung shared his experience with regional tax authorities across the Mainland, noting significant differences in their approach. He recounted his interactions with tax offices across various provinces, highlighting the advantage of leveraging experiences from more developed regions like Guangdong to facilitate discussions in less developed areas.

Lee emphasized building professional relationships with tax authorities and advocated for informal, non-attributable discussions to gain insights and address uncertain issues. She stressed the importance of understanding the local context and the perspectives of individual tax officials to navigate complex cases effectively.

The role of big data

Chan then raised the topic of big data and its implications for tax compliance, suggesting that the integration of advanced systems like the Golden Tax System (GTS) Phase IV indicated a trend towards more sophisticated tax administration.

Hui pointed out that the use of big data to flag anomalies by tax authorities could lead to scrutiny even for minor discrepancies. Lee then discussed the subjective nature of data interpretation and its potential to mislead. Sharing examples of discrepancies in data reporting across countries and industries, she emphasized the importance of understanding the context and specifics behind the data.

Commenting on the GTS, Leung suggested the system could be further enhanced by integrating data from other government bureaus into its warning systems. He explained that the lack of cross-departmental data interaction could lead to unjust complications, quoting a case involving land appreciation tax.

Individual tax policies in the GBA

Shifting the discussion to the topic of individual tax policies in the GBA, Chan invited the panellists to share their observations and industry perspectives on the attractiveness of GBA tax policies for Hong Kong taxpayers.

Wong noted that with the new policies, companies faced less friction when considering relocating their headquarters or restructuring, especially when their employees could benefit from tax incentives. She observed that Hong Kong employees were more willing to work in the GBA due to the optimized tax policies, whereas the improved process of applying for tax refunds had also simplified corporate decisions.

Hui echoed this observation but noted that the requirement to pay taxes up front and receive refunds only later could create cash flow challenges. She suggested that this could be improved to ease the financial burden on taxpayers.

Global expansion of Chinese companies

For the last question, Chan turned to the trend of Chinese companies expanding globally, particularly on the complexities of indirect and turnover taxes, and transfer pricing (TP).

Leung pointed out that, with Chinese companies becoming more recognizable internationally, they were becoming increasingly prone to attention from foreign tax authorities. He also noted that Chinese companies preferred consulting with professionals who understood both the Chinese and international tax environments, which gave Hong Kong professionals a clear advantage.

Lee explained that the principles of TP in these situations were not so different from those initially used when assisting foreign companies to set up operations in China, such as pricing strategies, establishing branches or subsidiaries, staffing decisions, and addressing permanent establishment issues. The fundamental TP principles remained unchanged, but the specific issues needed to be re-evaluated in the new context.

Over 180 members tuned in to the face-to-face event at the Institute. In addition to the panel discussion, respected officials from the Shenzhen Tax Service, State Taxation Administration presented on the latest tax incentives and tax developments in Hetao and Qianhai.

If you missed out on attending the conference in person, the archived webinar is now available for enrolment here.