A+
DRIVING BUSINESS SUCCESS
Issue 4 Volume 20 October 2024

PLUS:

START-UP CFOS
CFOs of fast-growing start-ups on the challenges of their roles

SMPS & SUSTAINABILITY
Tips for small- and medium-sized practitioners planning to offer sustainability services

SECOND OPINIONS
How can SMPs best help small businesses bounce back?

KEEPING THE CROWN

Agnes Chan, Chairman of the Hong Kong General Chamber of Commerce, on the need to help the city's businesses thrive, not just survive

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DEAR MEMBERS

For my final President's message in *A Plus*, I want to look back on the year and reflect on the remarkable journey we have undertaken together. It has been a year filled with significant milestones, challenges, and triumphs that have set a formidable foundation for the future of our Institute.

Over the past year, one of my primary focuses has been on enhancing member engagement and support. We have made concerted efforts to create platforms for meaningful interactions, such as the Members' Forum and networking lunches to provide invaluable opportunities for the Institute's leadership to connect with members and hear your view directly. These events have been pivotal in fostering a sense of community and belonging among our members.

This also applies to our efforts to strengthen our support in professional development as well as personal well-being. While we continued to provide CPD courses covering critical areas such as accounting, sustainability, audit and assurance, and ethics, we also ramped up efforts to organize various sports, recreational and networking activities. I had the opportunity to attend many of these events and was delighted to see our members display their exceptional talents beyond the workplace.

Over the course of the year, we have diligently utilized press events and releases to disseminate the Institute's work to the public. Our communications have underscored vital issues, including our budget proposals submitted to the government, survey on the talent supply within the accounting sector, and findings from the teen money management survey. Furthermore, our advancements in establishing sustainability reporting standards have attracted substantial attention, fortifying our Institute's position as a thought leader in the industry.

Indeed, as the standard setter for sustainability reporting in Hong Kong, our work was recognized in the Vision Statement issued by the government in March 2024, and we have proudly led the development of the HKFRS S1 and S2, with the exposure drafts launched in September. Furthermore, we introduced the 1-2-7 Sustainability Capacity Building Framework to foster a sustainability mindset and enhance knowledge across our community. Our ESG workshops, under the Pilot Green and Sustainable Finance Capacity Building Support Scheme by the government, have also been well-received, reflecting our commitment to sustainability.

"It has been a year filled with significant milestones, challenges, and triumphs that have set a formidable foundation for the future of our Institute."

The Institute also continues to forge strategic partnerships across borders. Our recent memoranda of understanding with the Chinese Institute of Certified Public Accountants and the Institute of Singapore Chartered Accountants exemplify our commitment to international collaboration.

To develop future talent, we have increased our outreach efforts. Since January, the Rich Kid, Poor Kid programme has conducted over 40 sharing sessions, reaching more than 9,000 young students. Collaborating with the Education Bureau, we also engaged over 9,000 secondary students, providing them with insights into our profession. The participation of many of our members has played a significant role in inspiring the next generation. For tertiary students, we conducted more than 60 QP Talks in the past 18 months, reaching over 4,000 students, while the enhanced Experiential Business Learning Programme offered internships, job shadowing, and training opportunities, ensuring students gain practical experience in the field.

These achievements indicate our commitment to advancing the profession and promoting a sustainable future. To make sure our members and stakeholders are informed of these important efforts, we have improved our communications by enhancing direct email communications and social media outreach.

The recent launch of the CPA Community, which invited a select group of dedicated members, serves as a centralized platform to engage individuals who share our mission to disseminate key messages aimed at promoting the profession's image. This represents a significant milestone that I hope will establish an essential channel enabling us to enhance the impact of our initiatives.

As I conclude my tenure, I am filled with optimism for the future of our Institute. The foundations we have laid this year will undoubtedly pave the way for continued growth and success. I am confident that with your continued support and dedication, we will reach even greater heights.

Thank you for the privilege of serving as your President. It has been an honour to lead such a dynamic and forward-thinking organization. I look forward to continuing my participation as a member of the Council and the Immediate Past President.

Roy Leung, President

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DRIVING BUSINESS SUCCESS

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

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NEWS

Institute news   Business news

HKICPA issues exposure drafts of inaugural Hong Kong Sustainability Disclosure Standards

On 16 September, the Hong Kong Institute of Certified Public Accountants published the Exposure Drafts for HKFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and HKFRS S2 *Climate-related Disclosures* (HKFRS Sustainability Disclosure Standards) for public consultation. The deadline for comments was on 27 October.

Following extensive engagement with a wide range of stakeholders over the past few years, the Institute proposed full convergence of HKFRS S1 and HKFRS S2 with IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* (ISSB Standards), to be effective from 1 August 2025.

The Institute believes that Hong Kong's full convergence with the ISSB Standards has global significance as it would bolster the connection of global capital with local businesses as well as those in Mainland China and other regions.

"The issuance of exposure drafts of HKFRS Sustainability Disclosure Standards marks a significant leap forward for Hong Kong's sustainability disclosure landscape. This demonstrates the Institute's unwavering commitment to supporting the sustainable development of Hong Kong," said Roy Leung, President of the Institute. "HKFRS S1 and S2 are crucial in aligning Hong Kong's sustainability reporting with the global baseline. By enhancing consistency and comparability, these standards will better meet the needs of investors seeking reliable sustainability information."

As indicated in the government's Vision Statement, the application of HKFRS S1 and S2 will prioritize publicly accountable entities including listed entities and regulated financial institutions in Hong Kong.

The HKICPA welcomes latest Policy Address

The Institute welcomes the diversified initiatives outlined in the Policy Address announced by the Chief Executive on 16 October to boost the local economic development. The Institute was pleased to see that certain policy proposals from the Institute were adopted by the Chief Executive.

The Institute's President Roy Leung said, "We expect that sustainable development and innovative technologies will become new impetuses for economic growth. We welcome the diverse initiatives in the Policy Address regarding the relevant aspects and solidify the existing edges of the financial services industry. These initiatives will further strengthen the sustainability of Hong Kong's economic development. In view of this, the Institute will continue its close co-operation with stakeholders to foster development of the accounting profession, building capacity in the area of sustainability for various society sectors, with the aim of strengthening Hong Kong's status as a leading international financial centre." Read the press release to learn more about the Institute's responses.

Cross-straits, Hong Kong and Macau Accounting Profession Conference 2024

The annual Cross-straits, Hong Kong and Macau Accounting Profession Conference returned after a long hiatus on 28 October. With the theme "New Mission of Accounting Profession – Leading a Sustainable Future", the event brought nearly 400 business and accounting professionals from across the cross-straits, Hong

Cross-straits, Hong Kong and Macau Accounting Profession Conference 2024, held on 28 October, brought prominent business representatives and accounting leaders together from across the cross-straits, Hong Kong and Macau to discuss recent hot topics.

Kong and Macau.

The opening ceremony was officiated by distinguished guests including Michael Wong, the Deputy Financial Secretary of Hong Kong, Jiang Yong, Secretary-General of the Chinese Institute of Certified Public Accountants, Lee Meng-Shiou, Vice Chairman of the Taipei CPA Association, Iong Weng Ian, President of the Union of Association of Professional Accountants of Macau, and Roy Leung, President of the Institute.

Hua Jingdong, Vice-Chair of the International Sustainability Standards Board, kicked off the engaging discussions at the conference with his sharing on "Building a sustainable future together".

Keynote speeches and panel discussions covered essential topics like global economic trends, sustainability, and the role of small- and medium-sized practising firms. Leaders and experts shared invaluable insights, fostering collaboration and knowledge exchange across the region.

Renewing membership for 2025

The 2025 renewal notice was issued to all members on 2 October. To complete the renewal process, members should take the following steps on or before 15 December: (i) submit the Annual Return for membership renewal, which includes your continuing professional development declaration and fit and proper declaration; and (ii) pay the annual fee online. Visit here to renew or check your renewal status.

National Day Celebration Dinner for the Accounting Profession

The Institute, in collaboration with the Association of Hong Kong Accounting Advisors, Hong Kong Association of Registered Public Interest Entity Auditors Limited, Hong Kong Business Accountants Association, and The Society of Chinese Accountants and Auditors, hosted a National Day Celebration Dinner to celebrate the 75th anniversary of the founding of the People's Republic of China on 27 September. More than 500 guests and members joined the event together with the three guests of honour Christopher Hui, Secretary for Financial Services and the Treasury, Wang Song-miao, Secretary-General of the Central Government's Liaison Office in HKSAR, and Liu Xiaoming, Counselor of the Commissioner's Office of China's Foreign Ministry in the HKSAR.

The CPA Community Launch Ceremony took place on 17 October to kick off the new initiative.

CPA Community Launch Ceremony

The Institute held the CPA Community Launch Ceremony on 17 October to kick off the CPA Community, a centralized hub designed to recognize and engage select members who have shown dedication to the Institute's vision and mission to promote the profession. The aim of the initiative is to amplify the key messages identified by the Institute through curated information and updates.

Mentorship Programme Homecoming Night

To mark the 10th anniversary of the Institute's Mentorship Programme this year, the Institute gathered over 110 current and past mentors and mentees on 9 October for a special evening. The night featured a heartfelt welcome from the Mentorship Programme Support Group Convenor, special recognition for mentors and mentees with more than eight years of dedication, engaging games, and networking over light refreshments.

Since 2015, the programme has matched nearly 1,900 mentor-mentee pairs, with over 750 mentors and over 1,100 mentees benefiting from this enriching experience. Applications for the 2025-26 cohort will open in late November.

QP Top Student and BAFS Student Award Ceremony 2024

The Institute hosted the QP Top Student and BAFS Student Award Ceremony 2024 on 21 September. Marking the 25th anniversary of the Qualification Programme (QP), the event honoured outstanding students of the QP and presented scholarships to deserving recipients.

For the first time at this annual event, the Institute included BAFS secondary school students, celebrating the winners of the HKICPA Accounting and Business Management Online Quiz, along with students who achieved outstanding results in the BAFS mock exam and HKDSE exams. There was also experience sharing from top QP students and secondary school participants of the work shadowing scheme under the Experiential Learning Activity Series. Under Secretary for Financial Services and the Treasury Joseph Chan was the guest of honour.

Council meeting minutes

The abridged minutes from the June, July and September 2024 Council meetings are now available.

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IT Conference 2024

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Venue: Ballroom, The Ritz-Carlton, Hong Kong

For enrolment

30

The number of Hong Kong-listed companies that comply with Sharia standards that investors in Saudi Arabia can tap into through the Albilad CSOP MSCI Hong Kong China Equity ETF, the first ETF in Saudi Arabia to track the Hong Kong equity market. The ETF, which was scheduled to list on 30 October on the Saudi Stock Exchange, makes its debut with an initial size exceeding US$ 1.2 billion, according to Albilad Capital and its partner Hong Kong-based CSOP Asset Management.

6 months

The length of time PwC ZhongTian has been suspended from conducting audit work in Mainland China over its work on the collapsed Chinese property giant Evergrande. The firm was also fined US$62.2 million. Other PwC operations providing non-audit services in China are not affected. "It is not representative of what we stand for as a network and there is no room for this at PwC," the firm's global chair Mohamed Kande said.

87%

The percentage of workers who see human skills like adaptability, leadership, and communications as integral to their career advancement, while 52 percent think their company values employees with human skills more than those with technical skills, according to Deloitte's Workplace Skills Survey. The report highlights a possible imbalance in corporate learning and development programmes.

In September, the value of total exports of goods rose by 4.7 percent over a year earlier to HK$398.1 billion, after a year-on-year increase by 6.4 percent in August, according to data released by the Census and Statistics Department. The value of imports of goods increased by 1.4 percent over a year earlier to HK$451.3 billion. Despite global economic uncertainties, the government believes improved Mainland economic prospects should support Hong Kong's export performance.

Mark Koziel

The incoming Chief Executive Officer of AICPA & CIMA, which operate together as the Association of International Certified Professional Accountants. Koziel, who will begin his role on 1 January 2025, will succeed Barry Melancon, who retires at the end of this year. Koziel is President and CEO of Allinial Global, the world's second-largest accounting association.

1.2 million

World Bank predicts the global supply of oil will exceed demand by an average of 1.2 million barrels per day next year, pushing down prices from an average of US$80 a barrel for Brent crude this year to US$73 a barrel in 2025 and US$72 in 2026. Its new Commodity Markets Outlook report published in October also finds that gold prices are likely to remain elevated in 2025, buoyed in part by strong central bank demand.

"The listing of Synagistics via a successful de-SPAC transaction is a milestone for Hong Kong to introduce a new way for a company to go public other than normal initial public offerings. This will strengthen Hong Kong's role as a listing venue and international financial centre."

– Norman Chan, Chairman of Hong Kong Acquisition, a special-purpose acquisition company (SPAC). Singapore-based Synagistics, which provides digital commerce solutions, became the first overseas company to go public on the Hong Kong Stock Exchange through a merger with the SPAC on 30 October.

1,200+

The number of start-ups Hong Kong Science and Technology Parks (HKSTP) will introduce to Beta Lab, Saudi Arabia's start-up incubator, for investment decisions, according to HKSTP CEO Albert Wong. On 29 October, both parties signed an agreement in Riyadh to collaborate, giving HKSTP's park companies potential access to financing from Beta Lab's new US$300 million investment fund.

ALWAYS READY FOR BUSINESS

Interview with Agnes Chan, Chairman of the Hong Kong General Chamber of Commerce

Backed by years of experience providing tax and business advisory services, Agnes Chan now leads the oldest business organization in Hong Kong. She talks to Jemelyn Yadao about ways to support the city's small businesses to regain pre-pandemic levels of growth, and how her work as an accountant leads to new discoveries

Photography by Wai Tsang

As the "voice of business", the Hong Kong General Chamber of Commerce (HKGCC) hears the views and concerns of the city's businesses, big and small, and right now the call for resilient companies is louder and clearer than ever.

When it comes to Hong Kong small- and medium-sized enterprises (SMEs), over three quarters (77 percent) of them have not yet recovered to pre-pandemic levels and 39.2 percent of those expect their business to decline further this year, according to findings of the HKGCC's recent SME Survey.

"We tried to understand the biggest challenge, which is cash flow. They are also concerned about high rents, high labour costs and changing customer behaviour, for example a lot of people go to Japan because of currency. These are challenges that we have tried to address by bringing it to the attention of the government," says Agnes Chan, Chairman of the HKGCC, and a member of the Hong Kong Institute of CPAs. She took up the position in May, succeeding fellow Institute member Betty Yuen, Non-executive Director at CLP Holdings.

The chamber included urgent measures to assist SMEs in its submission for the 2024 Policy Address, which Chief Executive John Lee delivered on 16 October after Chan spoke with *A Plus*. Following the address, the chamber said it "lauded the decision to relaunch the principal moratorium under the SME Financing Guarantee Scheme, allowing businesses to apply for principal moratorium for up to 12 months, and extending the guarantee period to 10 and eight years for 80 percent and 90 percent guarantee products, respectively."

With 360,000 SMEs in Hong Kong, representing 98 percent of companies in the city, SMEs are the backbone of Hong Kong's economy, says Chan.

"We can't let them down. We need to help SMEs with potential to continue," she adds. "The entrepreneurship in Hong Kong is strong. With everybody focused on building up an innovation and technology (I&T) hub, it's important to note that these I&T companies all start small and grow with government support and with different investors, so that's why we see the importance of helping them, especially in the current operating environment."

Chan believes the focus should not only be on helping SMEs grow, but also on their sustainable growth. As part of this, the chamber is driving a "transformation agenda" for SME members. "Out of our more than 4,000 members we have a large group of SMEs, and we are helping them to drive digitalization and innovation, adopt artificial intelligence, understand what environmental, social and governance is, and how to integrate cybersecurity. Once they go digital, cybersecurity risks would be a major challenge," says Chan. "Besides

having the government address some of the immediate cash flow issues, SMEs need to do their part by, for example, digitalizing some of their processes. I think the roll-out of e-consumption vouchers helped many SMEs to digitalize and adopt e-payments."

Her views echo those expressed by the Chief Executive during the Policy Address, who said SMEs needed to strive "for self-improvement" amid "a transitional period" of the economy.

Accountants are uniquely positioned to support struggling SMEs, Chan notes. "I've been in this field for decades so I do see our value in helping SMEs grow. We see so many different scenarios and business models that we can share the success stories as well as the pain points with SMEs." With cash flow being the biggest challenge faced by SMEs, accountants have the expertise and experience to run diagnostics on the company's business operations to find possible improvements in cash flow management, cost control and forecasting, she adds.

International outreach

Another priority for Chan is to build up the HKGCC's connections globally. Aside from the challenges faced by SMEs, large corporations are continuing to look for new markets amid the effects of geopolitical shifts on supply chains.

"Some need to move their manufacturing base to places offering more competitive pricing, and some of our members have set up IT offices in Vietnam because of the tech-savvy younger generation there," she adds. "International outreach is something we do to identify new markets and to help businesses strengthen their presence in the key markets. Our members have visited the Middle East and Association of Southeast Asian Nations (ASEAN), and we are working on trips to Europe and United States as we also want to cover traditional markets."

ASEAN, in particular, and its economic significance to Hong Kong, have been a key focus recently. Hong Kong's Chief Executive visited Laos, Cambodia and Vietnam from 28 July to 2 August, and Chan was part of the high-level delegation. "Visiting those places in person, and talking to the government officials on trade and investment on some of their policies and areas of focus, you see a lot of opportunities and mutual benefits," says Chan.

During the trip, 55 memoranda of understandings (MoUs) were signed in various fields, including trade, finance, aviation, fintech, education and digital technology. "This shows a very wide coverage. ASEAN has always been the second-largest trading partner of Hong Kong, so it's not a new market as such, but it shows that we are strengthening our focus in these markets. In Laos and Cambodia, you see a lot of infrastructure projects that we can provide support, and in Vietnam, the rising middle class are looking at how to invest their money," says Chan, who signed an MoU with the Cambodia Chamber of Commerce in Phnom Penh and another in Hanoi with the Vietnam Chamber of Commerce and Industry during the mission.

> "Talking to the government officials on trade and investment on some of their policies and areas of focus, you see a lot of opportunities and mutual benefits."

Hong Kong and the three countries also contemplated easing visitor entry requirements in both directions. "In Cambodia, the Deputy Prime Minister was suggesting a special economic zone for Hong Kong businesses. By going there and talking about business, you can really negotiate more incentives for our people," says Chan. The trip also served as an opportunity to promote the value of Hong Kong's professional services for ASEAN companies, she adds. "We are very strong in terms of professional services, and every place that we visited, they really look to the professional services team to help them."

In a recent chamber survey, members ranked ASEAN as their key area of interest for the upcoming year. Chan says plans are in place to send delegations to Cambodia and Vietnam at the end of October


In May, Agnes Chan, Senior Advisor, Chairman Office at EY Greater China, was elected Chairman of the Hong Kong General Chamber of Commerce, which has over 4,000 members.

to build on the MoUs signed and reinforce HKGCC's collaboration with the two countries. After the Policy Address, the HKGCC also welcomed the injection of HK$1 billion into the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) and expansion of the coverage to e-commerce to ASEAN countries.

The increasing importance of Southeast Asia and the Middle East to the global economy will be one of the topics explored during the chamber's flagship event, International Business Summit, taking place on 28 November. The conference will bring together business leaders and experts from around the world to share their industry forecasts as well as discuss the impact of new technologies.

Business as usual

In the Global Financial Centres Index (GFCI) 36 Report published in September, Hong Kong ranked third globally, up from fourth place in the March version of the index. Its scores were among the highest for business environment, human capital, infrastructure, and reputational and general competitiveness.

Chan says the news brought a boost of encouragement for both herself and the general business community. "Whether this means Hong Kong is back to business as usual, my view is as an international financial centre, Hong Kong is always ready for business. I like to draw people's attention to the diverse and dynamic financial infrastructure of Hong Kong. The news also demonstrates the city's resilience, because we've really gone through a lot since 2019 and

A leading tax advisor, Chan is a member of the National Committee of the Chinese People's Political Consultative Conference and a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority

COVID," she says.

However, a closer look at the GFCI report shows a more cautionary picture. "It's just a one-point difference between the number two and number three spots, and with number three and number four, it's two points. So what does that mean? Hong Kong needs to work hard. We can't be complacent," says Chan. "We have to continue to enhance our IFC capabilities. I really think the Greater Bay Area integration and the opportunities of the emerging ASEAN market, the Middle East and North Africa, will help push Hong Kong higher up the ranking."

74.3%

The percentage of SMEs that cited cash flow as the biggest challenge for the next 12 months by 74.3% of SMEs, followed by high rents (33.8%) and high labour costs (25.7%), according to the findings of the Hong Kong General Chamber of Commerce's SME Survey, released in August.

Meanwhile, the issue of labour shortages persists in Hong Kong, and the government has been addressing this with talent admission schemes. In sharing her thoughts on how to tackle this issue in the long term, Chan, who is Senior Advisor, Chairman Office at EY Greater China, refers to her conversations with chief executive officers who she advises, helping them identify and assess new market opportunities. She says the choice of CEOs when considering where to set up their headquarters in Asia usually depend on the "three Es" – environment, estate (or real estate) and education.

"In terms of environment, people are getting more environmentally conscious, so what is the environmental situation like in Hong Kong?" she says. "With the second 'E', it's about whether we can provide more reasonably priced accommodation for expats."

Chan also supports the government's push to develop Hong Kong as a "headquarter economy" to attract enterprises from outside Hong Kong to set up headquarters in the city. This could in turn attract talent, she says. "Businesses follow the opportunities, people follow the business. Headquarter economy offers employment opportunities with mobility, and people may be interested in these opportunities where they can move around the region."

Besides efforts to attract overseas professionals, Chan thinks reskilling and upskilling the local workforce is also key both to retain them and ensure they thrive in a fast-changing environment.

The first to know

Becoming an accountant felt predestined for Chan. Her elder brothers are accountants, while her father would jokingly call himself a "CA – a Chinese accountant." "He was very good with his abacas because he used to run a small business himself," she says.

As a child, she saw the fun in calculating change during trips to the wet market with her mother. She recalls racing against vendors to calculate the change and winning.

Chan, who joined EY in Australia in 1986 and returned to Hong Kong in 1991, worked her way up in the field of tax, eventually becoming a leading tax advisor in Hong Kong. The former managing partner of the EY firms in Hong Kong and Macau speaks with admiration about the accounting profession and credits it as giving her an edge. "I still love this profession because we get to know things very much in advance," she says.

Chan gives the example of a former client who, without her realizing it, was at the forefront of electronic navigation systems or GPS technology. "A guy from the U.S. came to Hong Kong and said 'I have this intellectual property and it can tell you where you are.' I was totally lost. He wanted to set up in Asia, and see how to structure his business. Now thinking back, this is the well-known GPS technology. We always get to learn new stuff."

Chan's memory is well-stocked with jobs that made her career as a tax specialist exciting. They include the time she first learned about tax-free zones in Dubai when companies first started showing interest in going into the Middle East, and when clients sought advice on how to structure their business during the peak of the dotcom bubble in 2000.

"We looked at how to capture the residual profit in a very low tax country when the Internet first took off. And at that time, Bermuda was the first place that recognized e-signature legally. I remember trying to find Bermuda on the world map hanging in my room, figuring out what to do. Of course now, the whole tax landscape has changed with global minimum tax."

These memories serve as advice for accountants just starting out in their careers. "You need to know what is happening globally as well as locally. You can't just know what's happening within your firm," says Chan.

> "Businesses follow the opportunities, people follow the business. Headquarter economy offers employment opportunities with mobility, and people may be interested in these opportunities where they can move around the region."

Overcoming struggles

With the global and sometimes urgent nature of the work, Chan remembers long days at the office. "There was a period of time when I left home at 6:00 a.m. because I have to talk to a client in Australia because they wanted to list in Hong Kong, and finished at midnight because I had calls with Canada or the U.S.," says Chan.

To maintain balance, she sets time aside to do the things she loves outside of work, such as cooking and baking with her son. "I make banana bread and sushi, and get him involved in the process," says Chan. "I started cooking in Australia because it was expensive to eat outside. I love tasting good dishes when eating out and then recreating them at home. Cooking also helps build up your relationship with family."

Her weekends are mainly spent doing Church duties. "My weekends are quite busy, but it somehow helps me relax from a busy life," she says.

Chan's other favourite way of relieving stress is going back in time with the help of historical Chinese dramas, or C-dramas. "The costumes are very detailed, and I love the scenery and watching the horses running," she says. "You also learn something from these dramas. You learn about history and culture, and how people struggle and overcome it."

To the moon: How start-up CFOs turn ambitions into reality

What makes a great start-up CFO? Institute members who choose to navigate start-up growth challenges, over the stability and allure of larger companies, share their experiences with Jemelyn Yadao

Illustrations by Gianfranco Bonadies

Brian Tang's company is growing fast. He founded Hong Kong-based PRtech start-up Tango Digital in 2020, and since then it has seen a 20-times surge in profit and is now expanding into new markets. As with any fast-growing start-up, there is the risk of founders and their teams being overwhelmed, which is why Tang recently hired his first chief financial officer.

"As we expand into different markets, looking at merger and acquisition (M&A) and other bigger moves, we think it's the right time to bring in a more strategic and experienced CFO who would help guide our structures across markets and work closely with myself and investors to grow our business," says Tang. His company uses social listening, artificial intelligence (AI) content generation and automated solutions to help companies safeguard their online reputation and avoid PR crises.

Someone who will be familiar with the new hire's initial few days or months on the job is William Chong, Finance Director at Glints, a Singapore-based start-up that runs a recruitment and career development platform. Chong, who is a member of the Hong Kong Institute of CPAs, joined the company just after it had raised US$6.8 million in Series B funding in 2019 and launched in Vietnam, Taiwan and Hong Kong.

He notes that at a certain stage of a start-up's growth, bringing in a CFO has its benefits. While outsourcing financial management and financial reporting is common among small businesses and allows them to better manage their budgets, companies that are scaling up quickly will inevitably need to have their finance function well taken care of.

"For start-ups, things change every few months. You have to be able to build backend systems and processes that are flexible enough so that you can move in an agile manner. A CFO can also think with the end in mind, and say 'at this stage, you should get to this point,' and then work backwards and build the aforementioned systems and processes quickly and within a controlled budget. That's the benefit of hiring someone more seasoned and experienced," says Chong.

The attraction of start-ups

The response to Tang's CFO job ad was "overwhelming." Over 300 candidates applied, with many having previously worked at larger organizations, including the Big Four. The reasons for wanting the role ranged from having an interest in AI and technology to "the growth and potential upside of being involved in a start-up at our stage," Tang says.

Institute member Rebecca Chan took on the CFO role at a biotech start-up with career development in mind. She already had 35 years of working experience in Hong

Kong Stock Exchange and three of the Big Four. What was missing was insight into working at a corporate. "I thought by joining the company, my career would be more complete," says Chan, who was previously co-head of the IPO and head of accounting affairs team of the listing division of the HKEX.

She joined Cloudbreak Pharma in 2022, and one of her recent focuses is to prepare the company's listing on the HKEX through section 18A. The company, which was founded in 2015 in California, is a clinical stage biotechnology company developing ophthalmic drugs for chronic eye diseases with few treatment options. "We basically develop eye drop treatments, and focus on first-in-class and best-in-class products, which means no one has developed it before, because our founder doesn't like to do products similar to what are already available," Chan explains.

For Chong, meeting the founders convinced him that joining Glints was the right move for him. "The culture of beginner's mindset very much aligned with what I was looking for. And the founders are very mature and intelligent. Through my interaction with them, I felt like I could be part of the right team to grow and scale the company," he shares.

An "engineer at heart" – he has a bachelor's degree in civil engineering – Chong says that working at a start-up allows him to "build," which was a welcomed change following his time in investment banking.

Current priorities

QuantumPharm, a Chinese AI-driven drug and new material discovery company, also known as XtalPi, caused some market excitement in June this year when it listed in Hong Kong. It became the first company to list under Chapter 18C of the Hong Kong Listing Rules, which came into effect in March 2023 and makes it easier for specialist technology companies to list in the city.

Its CFO immediately saw how the new Chapter 18C regime would benefit a wide range of innovative high-tech companies like XtalPi. "The IPO was a landscape-changing, precedent setting transaction for the Hong Kong market because previously for deep tech companies like us, we didn't have many choices when it came to IPO. Most listed in the United States, but with the geopolitical sensitivity and the A share market slowing down approval for new IPOs, Chapter 18C opens up another channel for deep tech companies to tap into the capital markets," says Ronald Tam, CFO of XtalPi, and an Institute member. "I think it has a profound positive impact on the deep tech space in China and is certainly a very attractive option for young start-ups."

When Tam joined the company as CFO in 2020, he insisted on doing another round of pre-IPO fundraising, emphasizing the importance of maintaining first-mover advantage. "I suggested to my cofounders that we don't know whether the market window will open or close in the next few

quarters, so while the market condition allows, we should switch on the fundraising engine to build a war chest in anticipation of any adverse market conditions," recalls Tam.

Today, given it's recent listing, Tam is focused on corporate governance. "We need to continue strengthening our corporate governance, including setting up various subcommittees at the board level to engage external parties to look at specific internal control matters," he explains. "I also need to work closely with business because any capital market fundraising exercise should go hand in hand with business development needs." Financial reporting remains a very important task, he adds.

"You need to understand the scientific side from the teams, to understand our projects' potential and align our financial strategy accordingly. This is actually tied to my character as a lifetime learner."

Fundraising mode

For most start-up CFOs, securing and managing funding is a priority. "As a pre-revenue biotech company and a start-up, we have to manage our funding very carefully and ensure there is adequate funding for our research and development purposes, and we need to adopt multiple strategies involving internal and external parties. Meeting and finding investors is part of my day to day," says Chan at Cloudbreak.

The best approach to achieving this is to learn all that needs to be learned in the biotech world. "You need to understand the scientific side from the teams, to understand our projects' potential and align our financial strategy accordingly. This is actually tied to my character as a lifetime learner," Chan says, adding that this allows her to help investors understand the industry trends and the clinical trial process.

In the mid to long term, Tang of Tango Digital expects his new CFO to focus on fundraising, M&A or any growth plans. "Help guide the company on profitable growth and be a constructive voice in our management team to keep everyone in check," he says.

To foster the growth of start-ups, the Hong Kong Chief Executive announced in the Policy Address 2024 plans to launch the "I&T Accelerator Pilot Scheme", allocating HK$180 million in the form of matching funds to attract professional start-up service providers with proven track records in and beyond Hong Kong to set up accelerator bases in the city.

For Chong of Glints, to accomplish fundraising in today's environment, he says the company had to shift to finding a balance between growth and operational efficiency. "In the past, most companies looked to survive through fundraising. But the fundraising is more challenging today given the macroeconomic environment. So right now, more focus is given to processes, establishing operational excellence," he explains.

Letting fires burn

With the lack of resources, start-up CFOs will need to have the ability and willingness to roll up their sleeves and pivot quickly. One of Chan's responsibilities when she first joined was to set up the company's Hong Kong office.

"Building something from ground zero was not something I had experience on. In the past, I would not need to care about which telecom service provider to use, which office space we should rent, or which decoration company we should hire," says Chan, speaking on the work that needed to be done internally to prepare for IPO. "On the external side, Cloudbreak was new to Hong Kong at the time, so I had to introduce the company to many stakeholders and do a little PR work. For a smaller company, you cannot just do the CFO role or just looking at the numbers. You have to do a little bit of everything."

Compared to what CFOs at large companies do, a start-up CFO's role will have similarities, but there are important differences that Chong points out. "At a larger company you would have some protocol SOP set up by your predecessors, and with a larger number of headcount, a lot of time would be spent making sure people are on the same page to make things happen. But in a start-up, you often have more work than you can handle. Everywhere you see fires burning – you put out the worst fires and for the rest you just let them burn."

This mindset pushes him to prioritize and always think about what drives the business, he adds. "Employees generally are given more autonomy and are empowered to make decisions. This is a key difference between a start-up and a more established company."

Advice for start-up CFOs

CPAs interested in joining a start-up as a CFO should be prepared to multitask and work alongside a range of internal and external stakeholders, says Tam of XtalPi. He adds that CFOs add value by having a strong business development mindset. "The CFO and finance team cannot work without bearing in mind what is in the best interest of the business and in turn the best interest of our shareholders."

With Hong Kong's continued aspirations of being a leading innovation and technology hub, Tam believes now is the best time for CPAs to be open to CFO or senior finance roles in the deep tech or start-up world. "I think they will be amazed about how fast the pace could be. Together, we can add value to global technology advancement."

> **"In a start-up, you often have more work than you can handle. Everywhere you see fires burning – you put out the worst fires and for the rest you just let them burn."**

The start-up ecosystem thrives on innovation, making continuous learning crucial. Chan's advice for CFOs is to expand their knowledge and to embrace adaptability, as a start-up CFO has to have characteristics beyond strong accounting skills.

She adds that having a diverse career journey has enabled her to take stock of past experiences that are most relevant to a start-up. "I would encourage people to move on to different roles, to see things from different angles. Then it will be much easier for them to handle challenges," Chan says.

CFOs should be prepared to get their hands dirty, especially in early-stage start-ups. "Things won't be ready. Expect to see a backlog of stuff that you have to manage and take care of," Chong says.

Being successful in the role also requires a big shift in mindset. "If you join a start-up, you have to think like a business owner. The survival of the company is pretty much the top line. So even though I'm in charge of finance and legal right now, I also need to think about how we can drive revenue," he says.

Indeed, Tang sees himself teaming up with the new CFO to grow his company. "We will work closely together on budgeting, bookkeeping process, audits, expansion plans, strategic directions, investor relations – basically everything from top to bottom," he says. "I view the CFO as a partner in the business and together we should make the company more efficient."

From compliance to competitive edge: SMPs helping SMEs to navigate the green shift

How can small- and medium-sized practitioners position themselves for sustainability services? Jolene Otremba talks to SMPs that are already guiding small- and medium-sized enterprises in the multifaceted field of sustainability, and a global representative for SMP interests

The growing urgency around climate change and other sustainability challenges has put increasing pressure on businesses of all sizes to rethink their operations and impact. While large corporations have the resources to establish robust environmental, social and governance (ESG) programmes, small- and medium-sized enterprises (SMEs) often struggle to navigate the complexities of sustainability.

This is where small- and medium-sized practitioners (SMPs) can play a vital role. As trusted advisors to SMEs, SMPs have a unique opportunity to guide their clients through the sustainability transition.

"The transition to sustainable practices and the reporting and assurance of sustainability information is truly a global transformation. Considering the level of global economic activity covered by SMEs, this transformation can be successful only if SMEs are part of the journey," said Christopher Arnold, Director at the International Federation of Accountants (IFAC). "If we recall how essential SMPs are for supporting financial literacy in SME clients, we expect that pattern to repeat with sustainability literacy."

While it is the larger entities and listed companies that will be subject to mandatory reporting and assurance requirements, SMEs are impacted as listed companies will have to report on practices in their value chain and will hold their suppliers accountable. The shift towards sustainability is also driven by stakeholder pressures and a growing recognition of the financial materiality of ESG issues.

Crowe (HK) CPA Limited saw a significant rise in the demand for sustainability consulting services around five years ago, prompting it to step into the sustainability space and offer such services. "Companies across various industries were starting to realize the importance of integrating sustainable practices into their operations to not only comply with regulations but also to meet the expectations of consumers and stakeholders," says Edmund Li, Technical Partner at Crowe, and a member of the Hong Kong Institute of CPAs.

Indeed, with a rise in information requests both from the value chain and from finance providers, an increasing number of SMPs are offering sustainability services, a trend that is growing globally, says Arnold. "Lenders are increasingly creating links between sustainability factors and risk, and taking these into account in their lending decisions. This makes the need for SMEs to establish processes, systems, and controls around sustainability information increasingly clear. These developments also highlight opportunities for SMPs to provide a range of different services, including advisory, reporting, agreed-upon procedures engagements, and assurance."

Kingsley Cheng, Partner at independent advisory firm PAL Advisory Limited, and a member of the Institute's Sustainability Committee, points out that while SMEs are not always big enough to have dedicated sustainability teams, they still need to manage their risks and address customer or regulatory requirements. "This is where we can step in as experts and coaches to help them identify the right metrics, collect data, and develop tailored sustainability strategies."

Gloria So, Partner at SW Hong Kong, who

specializes in providing ESG services and is an Institute member, sees the bigger picture and thinks now is the perfect opportunity to help SMEs embed sustainability into their core strategies, and help them think about growing their business with long-term sustainability goals.

"Our goal is not just to help clients comply with regulations, but to embed sustainability into their core strategies, thereby enhancing long-term value creation," she says. "In the future, I see SMPs not just as compliance facilitators, but as strategic partners in the sustainability transformation of SMEs."

Building multidisciplinary expertise

As trusted advisors, SMPs today have an opportunity to not only help SME clients comply with regulations but to embed sustainability into their core strategies. To get to that point, ESG consultants have to figure out how to take a practical, value-driven approach that helps SMEs to see the commercial benefits of sustainability, rather than treat it as a compliance burden, according to Cheng.

In general, advisory firms realize that sustainability is a broad and rapidly evolving field, requiring expertise across disciplines. Some have introduced diversity into their professional mix.

"We hired from all over, and our team comprises professionals from diverse backgrounds, including corporate finance, environmental management, accounting, and even geography, to address the broad spectrum of ESG aspects," Cheng says. "For some industries like cement, environmental knowledge especially on carbon emissions is needed. A geography background can support our team knowledge in physical climate matters. Those with an accounting and corporate finance background can communicate complex business and financial knowledge with our clients and staff from non-financial backgrounds."

"By bringing in professionals with different backgrounds, we have broadened our understanding of sustainability and their knowledge and insights have been invaluable in shaping our sustainability services."

Li says: "By bringing in professionals with different backgrounds, we have broadened our understanding of sustainability and their knowledge and insights have been invaluable in shaping our sustainability services."

For larger advisors, such as Grant Thornton, their first steps were to hire a director with prior experience in ESG reporting advisory services as early as 2016. It then built a team and published an annual report focusing on corporate governance and ESG, drawing insights from listed companies in Hong Kong. "Externally, like the HKICPA, the firm is a supporting organization of 'ESG Certified Professional Examination,' Hong Kong's first rule-based ESG examination, which tests candidates' knowledge of Appendix C2 Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange, and other international ESG Reporting frameworks," says Wiley Pun, Partner at Grant Thornton, and a member of the Institute's Sustainability Committee.

And they were not alone. So says that SW hired a dedicated ESG leader to spearhead the firm's sustainability initiatives, and drew on their knowledge of sustainability frameworks. The firm also built a cross-functional team working with partners to combine expertise in multiple areas so that they would be well positioned to offer a holistic approach to sustainability. "By embedding ESG into existing service lines, we could provide clients with comprehensive solutions that addressed both compliance and strategic growth," she says.

Raising awareness and driving change

One of the key challenges for both SMEs and SMPs today is staying up to date with the rapidly evolving sustainability landscape with regulations, reporting standards, and stakeholder expectations in constant flux. "One of the primary challenges we encountered was the rapidly evolving and fragmented nature of ESG regulations across different jurisdictions, which required us to stay continuously updated and agile in our approach," So explains.

The challenge was then compounded by the fact that many SMEs and mid-sized firms, which constitutes its client base, lacked awareness and understanding of

IFAC's Small Business Sustainability Checklist was developed to help SMEs maximize the benefits of incorporating sustainability into their strategy and business operations. "The objective is to demonstrate that irrespective of size, small steps can be taken to start a successful sustainability journey. We believe this is important for both SMEs and SMPs and will also be critical to attracting and retaining the next generation of talent," says Christopher Arnold, Director at IFAC.

ESG's strategic importance. "They often viewed sustainability as a compliance requirement rather than a value driver," she says.

To overcome these obstacles, the firm invested heavily in education. "Internally, we ensured our professionals were equipped with the latest knowledge through certifications and ongoing training," says So.

Arnold highlights the need for firms to prioritize training and development opportunities, as there will be a shortage of expertise in this area. He encourages SMPs to utilize resources that could assist them with this. "IFAC has prepared a dedicated webpage that provides material on sustainability reporting, advisory, assurance, and education and training to help practitioners upskill and build knowledge in this emerging area," he says.

Educating clients has also become key. "Although there is a growing demand for sustainability services, there remains a significant portion of clients who are unfamiliar with ESG concepts and their implications, leading to scepticism about the value of ESG services," argues Li.

SMPs, therefore, need to extend their service and role as sustainability educators and guides. Experts say that SMPs can help raise awareness among SMEs and empower them to take meaningful action. This could involve everything from building data management systems to supporting the integration of ESG considerations into business strategy and decision-making.

Unlocking the value of sustainability

Another common misconception among SMEs is that sustainability is a compliance burden rather than a business opportunity. As such, SMPs can play a crucial role in changing this mindset by demonstrating the tangible value that sustainability can bring.

"From our past experience, we've seen how sustainability can lead to cost savings, job creation, and improved reputation," Cheng argues. "It's about finding the practical benefits and helping SMEs realize that sustainability is not just about risk management, but also about creating value."

By fostering collaborations with organizations like non-governmental organizations and academic institutions, SMPs can further amplify the impact of their sustainability services by providing additional resources, expertise, and channels for engaging with the broader community. "We have external partners in the environmental engineering field when matters require deeper technical expertise. In the broader area of sustainability, we have a long-term collaboration with an NGO called Feeding Hong Kong to combat the issue of food waste through activities including volunteer work," says Pun.

> **"It's about finding the practical benefits and helping SMEs realize that sustainability is not just about risk management, but also about creating value."**

Li shares Crowe recently conducted an ESG awareness training session for an SME client, which starts with an evaluation of the client's existing understanding of ESG principles through effective communication and administering surveys to pinpoint their specific training requirements. By pinpointing the gaps, the firm could then deliver tailored training content to help address the specific needs and gaps in the client's organization.

The firm also shared practical knowledge and experience with staff on how they could actively contribute to the company's sustainability objectives. "By presenting real-life examples of successful ESG initiatives implemented by other organizations, we can illustrate the tangible benefits of adopting environmentally and socially responsible practices," Li says.

Looking ahead

As the sustainability landscape continues to evolve, Pun believes that there will be a stronger push towards decarbonization and combating climate change globally. He believes that investment and focus into renewable energy sources and the utilization of technologies such as AI and IoT to optimize resource management are likely to increase in the upcoming years.

"With the further strengthening

of laws and regulations on different countries such as the Corporate Sustainability Reporting Directive for the EU countries, it could mean that SMEs may have to innovate and adapt to stricter reporting requirements, higher standards for waste management, carbon emissions in order to meet regulatory demands," Pun says. But while this could mean an increase in operational costs, SMEs shouldn't be put off by it but instead see it as an opportunity to open up new business opportunities and ensure long-term resilience, he adds.

Li agrees, saying that the push for sustainability will not be limited to just government regulations, but will also come from consumer demand for more eco-friendly products and services.

"In my opinion, the shift to circular economy could be a trend in the future, emphasizing resource efficiency, recycling and sustainable product design," Li says. "Therefore, SMEs will need to invest in compliance measures which may require additional resources and expertise."

With so many changes abreast, how can SMEs and SMPs better prepare themselves for the future? Pun suggests that since preparing and disclosing sustainability metrics and improvements might be challenging for SMEs due to their limited resources and expertise on sustainability-related topics, SMPs will need to stay ahead of the constant evolving standards while assisting SMEs to develop data collection and management processes to ensure accurate and reliable ESG data. "This way, SMEs are able to understand required sources of data for collection in the data analysis process," he advises.

For SMEs, Li advises that they will need to start investing in compliance measures and proactive adaptation, which he argues can only lead to competitive advantages in a regulated market. "SMEs can also rethink their supply chains and product life cycles, leading to innovative practices such as refurbishing and sustainable sourcing, which might open up new market opportunities," he says.

SMEs will not be alone in embracing change. As Arnold notes, SMPs will also need to adapt and remain relevant in order to serve a rapidly changing world. "SMPs will remain a crucial pillar of support in ensuring not only that SMEs remain competitive, but also that they future-proof their business for the transition to a more sustainable world," he says.


Unlock your sustainability potential with our new initiatives!
Sustainability Information Centre
A revamped hub for easy access to the latest sustainability developments, thought leadership, and learning resources.
1-2-7 Sustainability Capacity Building Framework
Enhance your sustainability knowledge with our new capacity-building framework, focusing on IFRS S1 and S2*.
Sustainability Community
Connect with like-minded professionals and stay informed on sustainability trends and regulations. Enjoy priority access to newsletters, articles, events, webinars, and exclusive training sessions.
Explore these initiatives and elevate your sustainability journey with us!
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Ada Chung

The Privacy Commissioner for Personal Data and member of the Institute on key recommendations covered by PCPD's model framework for ensuring AI security

Safeguarding personal data privacy in the AI era with PCPD's Model Framework

Recently, especially since the advent of ChatGPT, artificial intelligence (AI) has become ubiquitous. It is no longer just a buzzword within the tech industry, as we see its application across various regions and industries, including the accounting profession. According to a Thomson Reuters' survey early this year, 73 percent of the surveyed tax and accounting firms believed that generative AI could be applied to their work. Accounting professionals have started integrating AI to automate daily operations such as summarizing and analysing data and identifying irregular transactions, thereby reducing costs and optimizing efficiency. The trend of integrating AI into organizations' workflow seems to be unstoppable.

AI – Friend or foe?

However "magical"AI may appear to be, the bitter truth is that it is a double-edged sword. Organizations must remain vigilant to the risks posed by this technology, particularly privacy risks, to prevent AI from becoming our foe.

Privacy considerations are crucial because data is the lifeblood of AI. Massive amounts of data are typically involved throughout the life cycle of AI, from development, customization and implementation to termination. For example, when accounting firms customize AI models purchased from AI developers or vendors using sensitive data, such as clients' financial information and personal data, any leakage could be catastrophic. If such data falls into the wrong hands, any subsequent fraud or identity theft will severely tarnish the firms' reputations and undermine the confidence of their customers. Therefore, having robust data security measures in place and ensuring compliance with the Personal Data (Privacy) Ordinance (PDPO) is vital.

Navigating the regulatory regime in Hong Kong

In Hong Kong, the PDPO, which is a principle-based and technology-neutral piece of legislation, applies to the collection, holding, processing and use of personal data, whether through the use of AI or not.

To help organizations establish AI governance and comply with the requirements of the PDPO, as early as 2021, my office, the Office of the Privacy Commissioner for Personal Data (PCPD) published the *Guidance on the Ethical Development and Use of Artificial Intelligence*. Organizations are recommended to adopt the internationally well-recognized data stewardship values (i.e. being respectful, beneficial, and fair to stakeholders) and ethical principles for AI (i.e. accountability; human oversight; transparency and interpretability; data privacy; fairness; beneficial AI; and reliability, robustness and security) when developing and using AI.

More recently in June this year, to support the "Global AI Governance Initiative" promulgated by the Mainland and to help ensure AI security, the PCPD published the *Artificial Intelligence: Model Personal Data Protection Framework* (Model Framework). Targeting organizations that procure, implement and use any type of AI system, including generative AI, and premised on general business processes, the Model Framework covers recommendations and best practices in the areas below.

AI strategy and governance

Active participation by top management is a crucial driving force for the successful implementation of AI strategy and governance. Organizations should first formulate an AI governance strategy that includes a roadmap setting out the directions and purposes for which AI systems may be adopted.

Beyond strategic alignment, when procuring AI systems from third parties, organizations are recommended to consider various governance issues in their supplier management processes, such as key privacy and security obligations or ethical requirements to be conveyed to potential AI suppliers.

Risk assessment and human oversight

Underpinning the Model Framework is a risk-based approach. It is recommended that organizations conduct risk assessments to systematically identify, analyse and evaluate the risks, including privacy risks, involved in the AI life cycle so that corresponding risk mitigation measures, including an appropriate level of human oversight, can be deployed. In use cases that may incur higher risks, organizations should adopt a "human-in-the-loop" approach wherein human actors retain control of the decision-making process.

Customization of AI models and implementation and management of AI systems

When customizing and implementing AI solutions, organizations should minimize the amount of personal data involved. Additionally, organizations should ensure that AI models have undergone rigorous testing and validation before use.

The Model Framework also recommends that organizations establish an AI incident response plan to monitor and address incidents that may inadvertently occur.

Communication and engagement with stakeholders

Regular communication with stakeholders is key to building trust. Organizations should encourage feedback from all parties and strive to make their AI-generated output as transparent as possible.

Be the trusted advisors

Accountants have long been the trusted advisors to individuals and organizations. As technology evolves rapidly, it is more important than ever that accountants keep abreast of the latest trends and measures in AI security in order to maintain the trust placed in them.

SECOND OPINIONS: HOW CAN SMALL- AND MEDIUM-SIZED PRACTITIONERS BEST HELP SMALL BUSINESSES BOUNCE BACK?

ANNTICE LAI
MANAGING DIRECTOR AT D & PARTNERS, AND MEMBER OF THE INSTITUTE'S SMP COMMITTEE

While many small- and medium-sized enterprise (SME) operators often attribute their business difficulties to external factors, they frequently neglect to monitor their own financial health closely. This oversight can have serious consequences, as these enterprises typically lack adequate capital reserves. When cash flow is disrupted – whether due to delayed payments or bad debts – they risk having liquidity issues, which can ultimately lead to a breakdown in their financial structures.

To address cash flow problems, the most immediate solution for many SMEs is to seek new investments or loans. However, while SME operators excel in delivering products and services, their expertise in management and finance is often limited, which hinders their ability to effectively navigate financing options. Regardless of the financing method pursued, the importance of financial reporting cannot be overstated. Financial reports serve a dual purpose: they provide operators with timely insights into their company's financial condition, enabling them to identify potential needs and seize opportunities, while also acting as a crucial communication tool for potential investors and lenders assessing the viability of resource allocation.

Small- and medium-sized practitioners (SMPs) possess a comprehensive understanding of the financial conditions, management practices, operational methods, and strategic approaches of these enterprises. These firms recognize that SMEs often struggle with insufficient management and financial knowledge, and that existing internal controls or financial documentation may not meet the expectations of investors or lenders. Consequently, accounting firms are well-positioned to offer tailored and practical solutions that address the specific needs of SMEs.

By enhancing financial reporting processes, these firms can assist SMEs in gaining clearer insights into their operational performance. This improved visibility allows operators to analyse how to optimize their business practices, restructure their organizations, and secure necessary financing to address cash flow challenges. Ultimately, these efforts are essential for SMEs to maintain ongoing operations and navigate the complex business environment effectively.

In conclusion, while seeking new investments or loans may provide temporary relief, SMEs must focus on long-term profitability improvement. Without addressing core operational issues, additional financing may merely postpone inevitable challenges rather than facilitate a true turnaround. For accountants, robust financial reporting is critical in helping SMEs assess whether to continue their business endeavours or implement changes for sustainable growth.

"By enhancing financial reporting processes, these firms can assist SMEs in gaining clearer insights into their operational performance."

PAXSON FUNG
PARTNER AT CITYLINKERS, AND AN INSTITUTE MEMBER

The economic landscape for SMEs in Hong Kong has become increasingly challenging. Many SMEs currently face significant hurdles, including cash flow constraints, manpower shortages, difficulties in securing financing, and navigating complex government funding schemes. These issues have been exacerbated by the ongoing impacts of the pandemic and changing market conditions, making it essential for SMEs to find effective strategies to rebound.

Many small businesses are struggling to maintain liquidity due to fluctuating revenues and rising operational costs. SMPs can provide comprehensive budgeting and forecasting services, with essential financial analyses that enable SMEs to optimize cash flow and manage expenses effectively. This proactive approach allows SMEs to navigate financial uncertainties with greater confidence. Meanwhile, the service cost will be affordable for SMEs.

Additionally, securing financing remains a significant hurdle. Accounting firms are instrumental in attracting potential investors by preparing compelling financial analyses and business cases. They help SMEs structure equity financing deals that maximize investment opportunities while minimizing ownership dilution, positioning them for future growth.

"Their agility and adaptability allow them to respond quickly to the changing needs of their clients, making them invaluable partners in recovery efforts."

Navigating complex government funding schemes can be overwhelming, with many business owners lacking the knowledge to access available resources effectively. Many SMEs are often unaware of various funding opportunities, such as the SME Financing Guarantee Scheme, the SME Development Fund and the BUD Fund.

Accounting firms play a pivotal role in identifying suitable programmes and streamlining the application process such as providing necessary audit reports. They ensure compliance with relevant regulations, facilitating access to vital financial resources necessary for expansion and innovation.

SMPs often have established relationships with financial institutions and government bodies, which can facilitate access to funding and resources. Moreover, their agility and adaptability allow them to respond quickly to the changing needs of their clients, making them invaluable partners in recovery efforts.

To enhance their role in supporting SMEs, SMPs should consider reviewing their service offerings to align with the evolving needs of their clients. This may include expanding advisory services focused on cash flow management, workforce planning, and financing strategies. Investing in talent is also crucial – recruiting people with expertise in digital transformation can bolster the firm's capabilities.

FRANCES CHAN
HEAD OF MEMBER ENGAGEMENT AT THE HONG KONG INSTITUTE OF CPAS, AND AN INSTITUTE MEMBER

The Chief Executive recently expressed during the Policy Address that SMEs need to strive "for self-improvement" amid "a transitional period" of the economy. To achieve this, SMEs face significant challenges in adapting to digital advancements and emerging sustainable practices.

SMPs are uniquely positioned to provide the guidance and expertise necessary for SMEs to implement effective change management strategies. By fostering strong relationships with their clients, SMPs can assess specific needs and tailor their support accordingly.

"One of the first steps SMPs can take is to facilitate SMEs in understanding the importance of embracing change, developing a clear vision."

One of the first steps SMPs can take is to facilitate SMEs in understanding the importance of embracing change, developing a clear vision, and creating a roadmap for their business transformation journey. By equipping business owners with the tools and knowledge to manage change effectively, SMPs can empower them to lead their teams confidently through transitions.

Digital transformation is particularly crucial for SMEs aiming to bounce back and thrive in the current environment. The shift towards e-commerce and changing consumer behaviours necessitates that businesses adapt quickly to remain competitive. SMPs can assist SMEs in identifying the right digital tools and platforms to engage with customers online, streamline operations, and enhance customer experiences. For example, implementing e-commerce solutions or digital marketing strategies can help SMEs reach new markets and respond to shifts in consumer demand more effectively.

Furthermore, as consumer preferences evolve towards convenience and accessibility, SMEs must rethink their business models. SMPs can provide insights into data analytics and customer relationship management systems, enabling SMEs to tailor their offerings and marketing strategies based on consumer behaviour. This data-driven approach not only enhances customer engagement but also fosters loyalty and repeat business, which are crucial for recovery in challenging times.

Sustainability is another critical area where SMPs can provide invaluable support. As consumers increasingly demand environmentally responsible practices, SMEs must adapt to meet these expectations. SMPs can help businesses develop sustainability frameworks that integrate eco-friendly practices into their operations, such as sustainable supply chain management and energy efficiency. By positioning SMEs as responsible corporate citizens, SMPs can help them attract a growing segment of socially conscious consumers.

FIVE QUESTIONS FOR PAIB

Colin Wong

Colin Wong, Finance Director at Citybus Limited on the goals he plans to accomplish at the bus operator, and how zero-emission buses are transforming the Hong Kong's public transportation landscape

What are the biggest lessons in your career so far? The importance of professionalism, the value of trustworthiness, the role of being a gatekeeper in decision-making, and the necessity of flexibility and adaptability. Professionalism establishes credibility and fosters respect among colleagues and stakeholders. Trust is foundational – it forms the basis of strong relationships and enables effective collaboration. Acting as a gatekeeper in decision-making ensures that choices align with organizational values and goals, requiring discernment and integrity. Additionally, embracing flexibility and adaptability allows me to navigate change and seize new opportunities in today's rapidly evolving business environment.

What attracted you to join Citybus? I saw it as a unique opportunity for me to work with a well-established organization that is integral to daily life in Hong Kong. Serving over a million people daily, Citybus plays a crucial role in the community, and I want to contribute to that impact. My work here not only creates value for shareholders but also enriches the lives of citizens in Hong Kong. Being part of a team that enhances public transportation and fosters connectivity in such a vibrant city is both meaningful and fulfilling.

As Finance Director, what are your current priorities? My key priorities include identifying areas for improvement and acting as a strategic partner on new initiatives, particularly in our new energy initiatives, collaborating with all stakeholders to enhance efficiency and exploring business opportunities. By fostering cross-departmental collaboration and leveraging data-driven insights, I strive to align with our organization's objectives and ensure it achieves sustainable financial performance. I believe this will position the organization to capitalize on emerging opportunities while maintaining a strong financial foundation.

Citybus launched its hydrogen bus earlier this year. How is the company working to deploy more hydrogen buses and electric buses on a more regular basis? Citybus is at the forefront of Hong Kong's zero-emission transformation, having launched the city's first electric double-deck bus and the world's first tri-axle hydrogen double-deck bus in early 2022. Our #MissionZero campaign aims for a full fleet of zero-emission buses by 2045, five years ahead of the government's target. We collaborate closely with our engineering teams in research and development to optimize the performance of hydrogen and electric buses. Taking into account fleet efficiency, bus depot parking spaces, and the number of charging and hydrogen refueling facilities, we have designed our operational model to ensure smooth integration with existing routes, enabling efficient deployment across Hong Kong's urban landscape.

What do you consider to be the most important value created by CPAs like yourself? As a CPA, I believe the most important value we create is our role as trusted business partners. Our credibility comes from our strong commitment to integrity. This reliability fosters confidence among stakeholders, which is key for effective decision-making and long-term success. By providing insights and strategic guidance, we help businesses navigate complexities and seize opportunities, ultimately driving growth and stability.

FIVE QUESTIONS FOR PAIP

Kanice Ng

Kanice Ng, Senior Audit Manager at PKF Hong Kong Limited on the opportunities of her role and her experience using technology to streamline the audit process

What are the biggest lessons in your career so far? I've learned several key lessons. Firstly, the importance of adaptability. Navigating diverse engagements and clients requires a flexible approach. Staying ahead means continuously updating my skills and being open to new ways of working. Secondly, attention to detail is crucial. In auditing, even the smallest oversight can have significant consequences. Thirdly, building strong professional and high quality relationships is invaluable. Whether it's with team members or clients, fostering trust and effective communication can make all the difference. Finally, continuous learning and technical development are key to staying relevant and providing the best service.

What do you love most about specializing in audit? The dynamic interaction it offers. Engaging with individuals from diverse backgrounds and industries provides me with unique learning opportunities and insights into various business operations. Each new engagement or client, from gaining an in-depth understanding of their business and helping solve their problems with my professional knowledge, makes every day feel fresh and challenging. The critical thinking and business acumen required in auditing are intellectually stimulating and rewarding.

How do you think SMPs can maximize the potential of their SME clients? Firstly, they can provide tailored advisory services, focusing on the unique needs of each SME, such as financial planning, risk management and strategic growth guidance. Leveraging technology is another critical aspect. SMPs can assist SMEs in adopting the latest technology and digital tools to enhance operational efficiency and competitiveness. Also, SMPs can help ensure regulatory compliance, helping SMEs avoid costly penalties and promote sustainable business practices. Lastly, offering training on the latest developments, such as tax regulations or accounting standards to SME employees can improve productivity and innovation within the business. By empowering SMEs with these tools and resources, SMPs can significantly boost their clients' resilience and potential for success.

Have you taken steps to adopt technology for handling the audit process? Yes, we have adopted technology and audit management software to streamline the audit process. Incorporating data analytics has substantially improved the precision and efficiency of our audits. For example, when I was a junior, I would spend considerable time manually reading through pages of contracts and agreements. Now, with AI-driven tools, this task is completed in minutes. The benefits of adopting technology include enhanced accuracy and the ability to handle larger volumes of data more effectively. Additionally, these tools provide deeper insights and better risk assessments, ultimately leading to higher quality audits.

In what ways has your CPA qualification and training helped you in your career? They have been instrumental in shaping my career. The education has helped me to build trust with my partners and clients, who rely on my expertise and professional judgement. The continuing professional development required ensures I stay up to date with the latest industry trends and standards development which are not only necessary for providing professional services to our clients but also to coach and mentor our staff.

Welcome

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

25TH QP ANNIVERSARY

QP Graduates – June 2024 Session

The Institute is pleased to announce that 391 QP candidates successfully completed the Qualification Programme in the June 2024 Session. The list of graduates is as below.

AU, Hoi Ying
AU, Hok Kei
AU YEUNG, Kai Yi
AU YEUNG, Tsz Hin
CAO, Huanjun
CEN, Pei Hong
CHAN, Bok Sing
CHAN, Chak On
CHAN, Cham Fai
CHAN, Cheuk Yiu
CHAN, Chi Ching
CHAN, Chin Long
CHAN, Ching
CHAN, Cho Ying
CHAN, Chun Hei
CHAN, Hei Man
CHAN, Ho Yi
CHAN, Hoi Ming
CHAN, Hoi Pan
CHAN, Hoi To
CHAN, Ka Lai
CHAN, Kit Wai
CHAN, Man Wai
CHAN, Mei Kwan
CHAN, Pak Hei Aaron
CHAN, Pik Tsam
CHAN, Pui Yee
CHAN, Sau Hei
CHAN, Sze Hang
CHAN, Sze Hang Sonia
CHAN, Tsz Chiu
CHAN, Tsz Hong
CHAN, Wai Kei
CHAN, Wing Fung
CHAN, Wing Hei
CHAN, Wing Lam
CHAN, Yat
CHAN, Yeuk Laam
CHAN, Yuen San
CHAN, Yun Hong
CHAN, Yun Yuen
CHAU, Hiu Yan
CHAU, Pui Man
CHEN, Liying
CHEN, Long Yin
CHEN, Lung Fai
CHEN, Sijia
CHEN, Siyu
CHEN, Suting
CHEN, Xiuwei
CHEN, Yajun
CHEN, Yihan
CHEN, Yu
CHEN, Yue
CHENG, Chi Wing
CHENG, Kwan Lai
CHENG, Man Wing
CHENG, Tsz Him
CHENG, Wai Nok
CHENG, Yin Ling
CHEUNG, Chi Chung
CHEUNG, Ching Mei
CHEUNG, Ho Yin
CHEUNG, Ka Yu
CHEUNG, King Cheung
CHEUNG, Man Ting Eugena
CHEUNG, Park Ho
CHEUNG, Sik Man
CHEUNG, Wing Ho
CHEUNG, Wing Ka Natalie
CHEUNG, Wing Sze
CHIN, Wing Ho
CHOI, Tsun Ming
CHOW, Hang
CHOW, Hau Yi
CHOW, Kit Ying
CHOW, Ngai
CHOW, Pui Shan
CHU, Ka Yee
CHU, Kin Wai
CHU, Lok Ching
CHU, Pui Yee
CHU, Yan Pui Miriam
CHUA, Ming Hai
CHUI, Suet Ying
CHUI, Tsz Ching
CHUNG, Hiu Nam
CHUNG, Ho Lun
CHUNG, Pui Ki
CHUNG, Wing Ki
CHUNG, Wing Yan
CHUNG, Yiu Hong
CHUNG, Yui Cheung Michael
DAI, Qingwen
DONG, Qiaochu
DU, Xiyao
DU, Ziru
DUAN, Xin
FANG, Fang
FANG, Xiaolu
FANG, Yaqi
FO, Chun Kai Brian
FOK, Hiu Ching
FU, Wan Yi
FUNG, Tsz Wai
FUNG, Wing Hei
GAO, Xuan
GAO, Yichao
GO, Hou Wing Kendrick
GONG, Le
GUAN, Yetong
HA, Ka Him
HE, Haiming
HE, Pu
HE, Tianqing
HO, Chi Lung
HO, Hang Yi
HO, Ho Fai
HO, Ka On
HO, Ka Wai
HO, Tim Yan
HO, Tsui Shan
HO, Wing Lam
HO, Wing Suet
HO, Yee Chun Tiffany
HO, Yiu On
HON, Lai Fan
HOU, Wei
HU, Xiaojun
HU, Yuanjun
HUANG, Feiyuan
HUANG, Huaxia
HUANG, Xin
HUANG, Ying Wah
HUI, Ho Shing
HUI, Nok
HUI, Wing Tuen
HUNG, Ka Kiu
HUNG, Pui Yan
HUNG, Suet Kwai
IP, Cheuk Man
IP, Pui Hei
IP, Siu Fung Samson
JIN, Yiming
KAM, Chun Yu
KAN, Wing In
KONG, Chenyi
KONG, Man Bun
KONG, Pak Hei
KONG, Pui Yan
KOON, Chun Kit
KU, Man Yu
KUNG, Sin Yi
KWAN, Man Him Dominic
KWAN, Suet Lam
KWAN, Yiu Sing
KWOK, Hon Wai
KWOK, Yeuk Nam
KWONG, Chi Lok
LAI, Ching Kwan
LAI, Hoi Yan
LAI, Jiajun
LAI, Suet Ying
LAI, Tsz Fung
LAI, Yung Chieh
LAM, Chak Man
LAM, Cheuk Yee
LAM, Fong Yu
LAM, Ngai Wa
LAM, Suet Ying
LAM, Tsun Ho
LAM, Wing Suet Joanna
LAM, Yee Man
LAM, Yi
LAM, Yuen Ting
LAM, Yuen Ying
LAM, Yuen Ying
LAN, Qiwen
LANG, Yirui
LAU, Hiu Yan
LAU, Hug Chun Felix
LAU, Kai Ching
LAU, Ping Yu
LAU, Tsz Him
LAU, Wai Hin
LAW, Lok Yee
LAW, Siu Wai
LAW, Suet Ying
LAW, Wai Chuen
LEE, Chun Man
LEE, Chun Wah
LEE, Ho Ting Crystal
LEE, Ka Ho
LEE, Yan Yu
LEE, Yiu Fai

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to Success

LEE, Yung Lun
LEI, Fengzhi
LEI, Wing Yin
LEUNG, Chun Him
LEUNG, Sin Ting
LEUNG, Wai Yin
LEUNG, Weng Kei
LEUNG, Yee Mei
LI, Ka Man
LI, Kin Yan
LI, Mingchang
LI, Minglu
LI, Nan
LI, Qingyi
LI, Tsun Yin
LI, Wai Ying
LI, Wun Yi
LI, Xuhui
LIANG, Minghao
LIAO, Yiren
LIN, Sheng
LIN, Xiaowen
LIN, Yifan
LING, Chen
LIU, Chuyi
LIU, Jin Yuan
LIU, Jingjing
LIU, Lian
LIU, Lijia
LIU, Ruoqiu
LIU, Shuo
LIU, Wei
LIU, Xin
LIU, Yan
LIU, Yuqing
LIU, Zisheng
LO, Chun Lum Jeffrey
LO, Hau Man
LO, Hong Ching
LO, Mei Yin
LO, Tsz Hang
LU, Huan
LUI, Hei Tung
LUI, Ka Chun
LUI, Tsz Yin
MA, Tsz Ho
MA, Wing Lam
MAH, Shuk Yu
MAK, Oi Sze
MAN, Sin Yan
MAN, Yuen Ping
MANG, Fen Ching
MAR, Chun Yan
MOK, Tse Ho Clarence
MOK, Wing Cheung
NG, I Ching
NG, Ka Yeung
NG, Kelvin Ka Wai
NG, Kin Chung
NG, Tsz Kwan
NG, Tsz Wai Lilian
NG, Wang Hong
NG, Yuen Ting
OR, Ka Ching
PAN, Rui
PANG, Lai Yiu
PEI, Mingke
PONG, Chiu Cham
POON, Hoi Yan
QIU, Yiying
QU, Jiayuan
QU, Kaifeng
QUAH, Jing Qi
SHAO, Hoi Yiu Heidi
SHAO, Xiqing
SHEK, Mei Ting
SHEN, Haowen
SHENG, Renjie
SHING, Yuet Wing
SHUM, Chak Ming
SHUNG, Ka Man
SIM, Lok Hang
SINGH, Gurinder
SIU, Mei Ling
SO, Chung Ue
SO, Yat Nam
SONG, Shuang
SUN, Dan
SUN, Gang
SUN, Yixuan
TAM, Chung Tak
TAM, Hoi Ying
TAM, Man Yee
TAM, Shuk Fong
TAM, Wing Man Alice
TAM, Yuen Hin
TANG, Cheuk Yu
TANG, Chi Shan
TANG, Ching Yee
TANG, Chun Cheung
TANG, Hiu Yan
TANG, Lai Fan
TANG, Tsz Hei Zoe
TANG, Wing Tung
TANG, Yin
TANG, Zhenhui
TAO, Yi
TIAN, Jingxin
TIAN, Kun
TIN, Nga Hing
TO, Chun Hang
TONG, Tak Shum
TSAI, Ming Yan Chrissy
TSANG, Chi Hung
TSANG, Chun Hei
TSANG, Kar Man
TSANG, Shue Yiu
TSANG, Tin Yau
TSANG, Yuen Ying
TSE, Crystal Wing Huen
TSE, Yu
TSO, Yuet
TSOI, Man Man
TSOI, Tsz Kit
TSUI, Kin Kwok
U, Hou Cheng
WAN, Joseph Ngo Kiu
WANG, Hongyu
WANG, Jingwei
WANG, Kaidi
WANG, Lianqiang
WANG, Tianyi
WANG, Xinping, Hebe
WANG, Xuxuan
WANG, Yi
WANG, Ziheng
WEN, Wenli
WEN, Ziyu
WONG, Cheuk Ying Christy
WONG, Chun Yuen
WONG, In Chun
WONG, Ka Ki
WONG, Kelley Suet-Yau
WONG, Kit Yi
WONG, Man Yuet
WONG, Sin Ching
WONG, Sum Yin
WONG, Tak Fai
WONG, Tsun Yu
WONG, Yat Hung
WOO, Kai Sun
WU, Jinnuo
WU, Qingfan
XI, Xia
XIAO, Yao
XU, Jieni
YAN, Ka Wing
YANG, Chen
YANG, Mingfeng
YANG, Shu
YANG, Shuting
YANG, Wenxin
YANG, Yaxi
YAO, Tongmei
YAO, Yanhong
YAU, Lok Fung
YE, Xinyi
YE, Zihan
YIP, Hiu Ching
YIU, Cheuk Wing
YU, Chi To
YU, Chit Wai
YU, Linxiao
YU, Wai Tsung
YU, Wing Chin
YU, Wing Chun
YU, Yanwen
YU, Yifan
YU, Yimiao
YUAN, Shiqi
YUEN, Wing Kiu
ZHANG, Jieying
ZHANG, Junhui
ZHANG, Qiaoling
ZHANG, Yue
ZHANG, Yue
ZHANG, Zheng
ZHAO, Chen
ZHAO, Ya
ZHENG, Mingzhu
ZHENG, Xuerou
ZHOU, Xingyu
ZHU, Hongfeng
ZHU, Jia
ZHU, Jingyuan
ZHU, Linhui

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

Unveiling HKFRS 19

A disclosure-only standard optional for eligible subsidiaries

On 29 July, the Hong Kong Institute of CPAs issued Hong Kong Financial Reporting Standard (HKFRS) 19 *Subsidiaries without Public Accountability: Disclosures*, the equivalent of International Financial Reporting Standard (IFRS) 19 issued by the International Accounting Standards Board (IASB). HKFRS 19 is a disclosure-only standard which allows eligible subsidiaries to apply HKFRS Accounting Standards with reduced disclosure requirements. It does not include recognition, measurement and presentation requirements. Those requirements in other HKFRS Accounting Standards remain applicable.

An eligible subsidiary may elect to apply HKFRS 19 in its consolidated, separate or individual financial statements for reporting periods beginning on or after 1 January 2027. Earlier application is permitted.

Who can apply HKFRS 19?

HKFRS 19 is a voluntary standard for eligible subsidiaries. A subsidiary is eligible if:

- It does not have public accountability; and
- Its ultimate or intermediate parent produces consolidated financial statements available for public use that comply with HKFRS Accounting Standards.

A subsidiary has public accountability if:

- Its debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market; or
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

Expected benefits and costs of HKFRS 19

Addressing dual reporting challenges

In Hong Kong, certain subsidiaries prepare their annual statutory financial statements using *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard* (SME Standard) or HKFRS for Private Entities. At the same time, these subsidiaries also need to prepare a group reporting package in HKFRS Accounting Standards for their parents for the purpose of preparing the group's consolidated financial statements. These subsidiaries generally need to maintain additional accounting records or prepare additional information for group reporting purposes because of the recognition and measurement differences between different sets of accounting standards.

Applying HKFRS 19 will enable these subsidiaries to use the group's accounting policies in preparing their own financial statements without being subject to the full disclosure requirements in HKFRS Accounting Standards. This will eliminate the complications of dual reporting and the associated costs of keeping at least two sets of accounting records, thereby allowing the subsidiaries and their groups to simplify their reporting systems and processes.

Getting rid of disproportionate disclosure requirements

Subsidiaries that apply HKFRS Accounting Standards in preparing their annual statutory financial statements will also benefit from applying HKFRS 19. Although these subsidiaries do not have the problems of dual reporting, they may find applying HKFRS Accounting Standards unappealing because the disclosure requirements in HKFRS Accounting Standards are designed for publicly accountable companies and are disproportionate to the information needs of the users of these subsidiaries' financial statements. Applying HKFRS 19 would eliminate the need for these disproportionate disclosures and the associated time and costs in preparing and auditing those disclosures.

The IASB has assessed the reduction in disclosure requirements for a sample of IFRS Accounting Standards to illustrate the potential effects of applying IFRS 19. Diagram 1 on page 33 shows the results of the assessment. The percentage reduction was calculated by comparing the number of disclosures under a subheading in IFRS 19 and those in the respective IFRS Accounting Standard.

Benefits will vary

The benefits of adopting HKFRS 19 will vary depending on the facts and circumstances of the companies, such as:

- The accounting requirements currently applied by an eligible subsidiary;
- The financial reporting systems and processes within the group;
- The number of subsidiaries within the group that choose to apply HKFRS 19; and
- The size and complexity of the subsidiaries' operations.

Transition costs

When assessing whether to apply HKFRS 19, companies should also take note of the one-off transition costs that might be incurred on initial application of HKFRS 19. Examples of transaction costs include those relating to changing financial reporting systems and processes, and identifying the disclosure requirements that no longer apply and the information that no longer needs to be gathered and disclosed when applying HKFRS 19. The transition costs will differ from company to company. If a company concludes that the transition costs are not justified, it may choose not to apply HKFRS 19.

How to apply HKFRS 19

An eligible subsidiary that applies HKFRS 19 applies the requirements in other HKFRS Accounting Standards except for the disclosure requirements. Instead, the subsidiary applies the reduced disclosure requirements in HKFRS 19. See Diagram 2 on page 33.

Notwithstanding the above, entities should take note of the following exceptions:

- Subsidiaries eligible to apply HKFRS 19 are not required to apply Hong Kong Accounting Standard (HKAS) 33 *Earnings per Share* or HKFRS 8 *Operating Segments*, but may do so voluntarily. If an entity applying HKFRS 19 also voluntarily applies HKAS 33 or HKFRS 8, it is required to apply all the disclosure requirements in those respective standards.

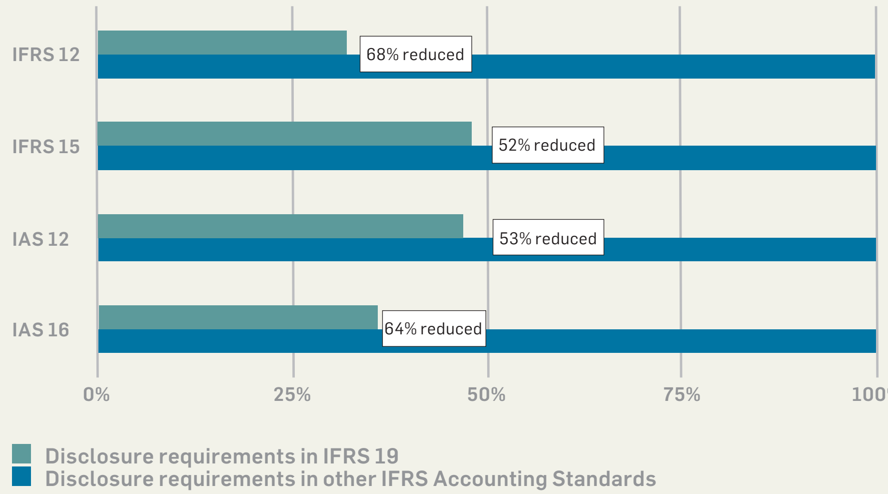
- If an entity applying HKFRS 19 also applies HKFRS 17 *Insurance Contracts*, it is required to apply all the disclosure requirements in HKFRS 17, as there are no reductions in the disclosure requirements for HKFRS 17 at this stage.
- A new or amended HKFRS Accounting Standard may include disclosure requirements about an entity's transition to that new or amended standard. Any relief granted to an entity applying HKFRS 19 regarding these transition disclosure requirements will be set out in the new or amended HKFRS Accounting Standard.

An eligible subsidiary applying HKFRS 19 should consider whether to provide additional disclosures if its compliance with the requirements in HKFRS 19 would be insufficient to enable users of its financial statements to understand the effect of transactions, and other events and conditions, on the subsidiary's financial position, financial performance and cash flows. On the other hand, an eligible subsidiary need not provide the specific disclosure required in HKFRS 19 if such information is not material.

As HKFRS 19 is part of HKFRS Accounting Standards, an eligible subsidiary that applies HKFRS 19 is required to clearly state in its explicit and unreserved statement of compliance with HKFRS Accounting Standards that HKFRS 19 has been adopted.

An eligible subsidiary can opt to revoke its application of HKFRS 19 for future periods. It may also choose to apply the standard again in subsequent periods.

Diagram 1: Percentage reduction in disclosure requirements



(Source: Adapted from IASB's Effects Analysis – IFRS 19 issued in May 2024)

Interaction with HKFRS 1

When an eligible subsidiary prepared its financial statements for the immediately preceding period under SME Standard or HKFRS for Private Entities and elects to apply HKFRS 19 in the current period, the subsidiary is considered a first-time adopter of HKFRS Accounting Standards and the disclosure requirements in HKFRS 19 that relate to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* will apply.

Other subsidiaries that are already applying HKFRS Accounting Standards and moving between applying HKFRS Accounting Standards with HKFRS 19 and HKFRS Accounting Standards without HKFRS 19 would not be within the scope of HKFRS 1.

Implementing HKFRS 19

Application of HKFRS 19 is voluntary. Eligible subsidiaries should evaluate the potential costs and benefits of the new standard as illustrated earlier in this article to decide whether to apply HKFRS 19 to their financial statements. Entities which have decided to apply HKFRS 19 should read the new standard thoroughly to identify the disclosure requirements that no longer apply and the information that no longer needs to be gathered. In addition, entities should adjust their financial reporting systems and processes properly to ensure that they can accommodate the disclosure requirements of HKFRS 19 effectively.

To support the implementation of the new standard, the IASB has provided various technical resources upon the issuance of IFRS 19, such as webcasts and educational materials that introduce IFRS 19, discuss the likely costs and benefits of IFRS 19, and share insights from global preparers and IASB members on the implementation of IFRS 19. The Institute also plans to organize educational sessions in the coming months to help entities understand the main features of the new standard. Stay tuned for these upcoming educational sessions and get in touch with the Institute's Standard Setting Department through the Technical Enquiry system if there are any questions with implementing HKFRS 19.

Diagram 2: Example of how to apply HKFRS 19

Reporting items of inventory	
Recognition, measurement and presentation requirements	Apply the relevant HKFRS Accounting Standard; in this instance, an eligible subsidiary applies HKAS 2 *Inventories*.
Disclosure requirements	Do not apply the disclosure requirements in HKAS 2. Instead, an eligible subsidiary applies the disclosure requirements in HKFRS 19, under the subheading "HKAS 2 *Inventories*".

(Source: Adapted from IASB's project summary and feedback statement of Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures issued in May 2024)

*This article was contributed by **Shiro Lam**, 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.*

Enhanced disclosures for business combinations

A summary of the Institute's response to the IASB Exposure Draft *Business Combinations – Disclosures, Goodwill and Impairment (Proposed amendments to IFRS 3 and IAS 36)*

In March, the International Accounting Standards Board (IASB) published an Exposure Draft (ED) proposing amendments to International Financial Reporting Standard (IFRS) 3 *Business Combinations* and International Accounting Standard (IAS) 36 *Impairment of Assets*. The objective of the ED is to address users' needs for better information about the performance of business combinations and to reduce the cost and complexity of the impairment test. This article highlights our major comments on the EDs. The full response is available on our website.

Overall, we agree with the proposed disclosures to IFRS 3 that they should only be applied to a subset of material business combinations, subject to an exemption. However, we have significant concerns in the following areas:

Scope of strategic business combinations

We see the merits of applying a threshold approach as it is easier to use, audit and enforce. Nevertheless, we are concerned that the proposed thresholds would not effectively capture the intended population of strategic business combinations as described in BC54 of the ED for the following reasons:

- The proposed 10 percent threshold appears too low compared to the local listing rules to provide additional information for significant acquisitions.
- The proposed quantitative thresholds only focus on the size of business combinations in terms of revenue, operating profit or loss and total assets, without considering the strategic value of the transactions. Furthermore, when calculating the thresholds, the acquirer and acquiree's financial information may be distorted e.g. due to significant non-recurring items, making it unrepresentative of the usual state of their financial performance and position.
- The proposed qualitative threshold lacks clarity on whether it is targeting major and strategically important acquisitions geographically.

If the IASB's intention were to capture only sizable business combinations, we recommend the IASB reset the proposed threshold to a higher one to align more closely with capital market regulations, provide guidance and clarifications to address the above identified issues, and rename the term "strategic" to another term, such as "major" or "substantial", to reflect the specific criteria that characterise the relevant business combinations.

However, if the IASB's intention were to identify both strategically important and sizable business combinations, we suggest the IASB consider using a principle-based approach with BC54 as the principle and the proposed thresholds as indicators rather than determinative factors. Entities could rebut the presumption by providing reasonable justifications and additional disclosures.

Disclosure of key objectives, targets and expected synergies

We have identified the following practical questions about disclosing key objectives, targets and expected synergies, and recommend the IASB provide guidance.

- An entity's objectives for an acquisition are often broad and subjective, making it difficult to identify the key objectives. In particular, our respondents questioned whether potential risk factors that could adversely impact the achievement of the key objectives should be disclosed.
- For key objectives that are non-financial related, such as branding, technological and innovation-related benefits, the ED is not clear as to whether, and if so, how entities should set the measurable targets and quantify the expected synergies.
- The ED lacks clarity on the meaning of "synergies". Specifically, our respondents questioned whether the proposed disclosures intend to capture the revenue of the combining operations or incremental revenue.

Exemption from disclosures

The application of the disclosure exemption requires significant judgement in identifying circumstances that "*can be expected to prejudice seriously the achievement of any of the acquirer's acquisition-date key objectives for the business combination*". However, the proposed application guidance lacks sufficient direction on the specific circumstances for such an exemption. It is also unclear whether the exemption would only apply in "extremely rare cases", similar to the exemption in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This leaves room for interpretation and subjectivity in restricting the exemption only to the appropriate circumstances.

Therefore, we recommend the IASB provide application guidance and examples of legitimate circumstances that qualify for the disclosure exemption. This recommendation, together with those on the scope of strategic business combinations and disclosures of key objectives, targets and expected synergies explained above, could enhance the overall robustness of the proposals and mitigate any potential debate between preparers and auditors.

Expectation gap on the level of assurance provided

Our practitioners expressed significant concerns that users and regulators might assume auditors had verified the existence and achievability of key objectives, targets and expected synergies disclosed in audited financial statements. This creates an expectation gap between the assurance provided by auditors and the assurance perceived by users, exposing auditors to litigation risk.

To address this, we recommend the IASB specify in the body of IFRS 3 that the disclosures represent management's best estimate at the time of acquisition, with no guarantee that the actual results will align with the disclosures. Entities should disclose this management assertion in the financial statements. We believe this approach would be consistent with paragraph 122 of IFRS 18 *Presentation and Disclosure in Financial Statements*, which requires a company to disclose a statement to set appropriate expectations around the nature and reliability of the information provided and help mitigate the expectation gap.

This article was contributed by ***Kennis Lee****, Associate Director and* ***Sam Chan****, Manager of the Institute's Standard Setting Department.*

Your views have been incorporated into the ISSB's work plan

An overview of the International Sustainability Standards Board's feedback statement

Your voices are heard

In August 2023, the Institute's Standard Setting Department responded to the International Sustainability Standards Board's (ISSB) Request for Information (RFI) on its *Consultation on Agenda Priorities* after consultation with our local stakeholders. In June this year, the ISSB published the feedback statement on its agenda consultation, which sets out the ISSB's responses to its feedback and 2024-2026 work plan.

Consistent with our stakeholder feedback, the ISSB decided:

- To place a high level of focus on supporting the implementation of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*; and
- To place a slightly lower level of focus on enhancing the Sustainability Accounting Standards Board (SASB) Standards and beginning new research projects and to give these activities equal attention.

The diagram on page 37 illustrates the balance of the ISSB's activities.

In addition, after considering stakeholder feedback and its own capacity, the ISSB has decided to add research projects on the risks and opportunities associated with the following topics to its work plan:

- Biodiversity, ecosystems and ecosystem services (BEES); and
- Human capital.

This aligns with our recommendation that the ISSB should undertake multiple projects and prioritize BEES as its primary focus.

Strategic direction and balance of the ISSB's activities

The ISSB decided to place the highest priority on supporting the consistent and high-quality implementation of IFRS S1 and IFRS S2 by companies in jurisdictions around the world. A primary focus on this endeavour is crucial to establish a global baseline of sustainability-related financial disclosures.

The ISSB acknowledges the importance of maintaining and enhancing the SASB Standards to support the implementation of IFRS S1 and IFRS S2, as well as to ensure their ongoing relevance and suitability for a global audience. The ISSB has decided to allocate a high but slightly lower level of focus to enhancing the SASB Standards in comparison to supporting the implementation of IFRS S1 and IFRS S2.

The ISSB recognizes the significance of beginning new research projects to enhance the global baseline of sustainability-related financial disclosures. It also acknowledges the feedback, particularly from investors, emphasizing that the successful implementation of IFRS S1 and IFRS S2 is crucial in establishing this global baseline and could take precedence over commencing new research projects. However, IFRS S1 requires companies to report on matters beyond climate with reference to materials such as the SASB Standards. Therefore, conducting new research on sustainability-related matters may contribute to the effective implementation of IFRS S1. In addition, researching industry-specific considerations can inform improvements to the SASB Standards. Accordingly, the ISSB has decided to assign a high but slightly lower level of focus to beginning new research projects compared to supporting the implementation of IFRS S1 and IFRS S2.

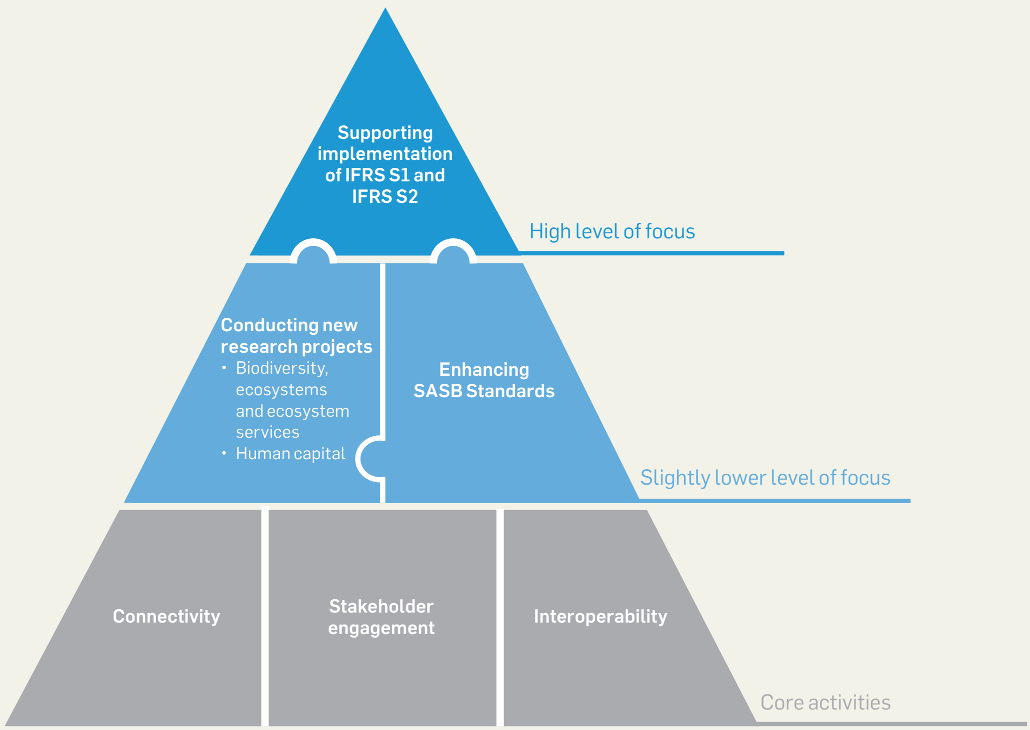
New research projects to be added to the ISSB's 2024-2026 work plan

Given the capacity limitations of the ISSB, it is unlikely that they will be able to deliver ISSB Standards or significantly advance all proposed projects within the two-year work plan outlined in the RFI. Each project requires extensive research and analysis to determine the necessity and feasibility of standard-setting.

The ISSB's capacity is constrained because a portion of it is dedicated to supporting the implementation of IFRS S1 and IFRS S2, as well as enhancing the SASB Standards. The ISSB has also taken into account other capacity-related factors, including their lack of prior comparable experience to estimate capacity requirements, the impact of project scope on the speed of progress, and the need to allocate capacity for emergent issues.

Moreover, recognizing the vital importance of engaging with stakeholders in the ISSB's work, the capacity of stakeholders to actively participate in projects holds significant value. Therefore, by considering these capacity constraints and applying its criteria for assessing the

Diagram: The ISSB's 2024-2026 work plan activities



(Source: Appendix A of the ISSB's feedback statement on Consultation on Agenda Priorities issued in June 2024)

priority of proposed projects, the ISSB has made the decision to undertake research projects that specifically focus on the risks and opportunities associated with:

Biodiversity, ecosystems and ecosystem services

Each part of BEES is inherently interconnected. Biodiversity serves as a fundamental attribute of natural systems, serving as an indicator for the functionality, productivity, and resilience of ecosystems that provide essential ecosystem services vital for life on Earth. Numerous economic activities are reliant on or impact BEES in various ways. Consequently, endeavours aimed at preserving, conserving, and restoring BEES can contribute to risk management and create opportunities for companies. It is reasonable to anticipate that these risks and opportunities can significantly impact a company's prospects, as outlined in IFRS S1, and may generate material information that is relevant to investors.

Human capital

Human capital encompasses the individuals comprising a company's internal workforce as well as workers involved in its value chain. In line with the Integrated Reporting Framework, human capital also refers to the competencies, capabilities, experiences, and motivations of the workforce and workers, fostering innovation. How a company manages and invests in its human capital directly impacts its capacity to generate long-term value. Human capital management includes various aspects such as workforce composition, stability, diversity and inclusion, training and development, health, safety, well-being, and compensation. While human capital management is relevant to all companies due to their employee base, the ways in which human capital influences value can differ. Research suggests that, depending on a company's business model, a diverse workforce can enhance talent attraction and retention, facilitate effective product and service design, marketing, and delivery, strengthen community relations, drive innovation, and identify risks.

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

Revised definition of a public interest entity in the HKICPA Code of Ethics

Key changes in the definition of a public interest entity following revisions to the Code

In July, the Hong Kong Institute of CPAs issued revisions to the *Code of Ethics for Professional Accountants* (Code) to broaden the definition of a public interest entity (PIE). These revisions include more categories of entities as PIEs, given the heightened public interest in their financial condition, for the purposes of independence requirements to enhance confidence in their audits.

Key changes in the definition of PIEs

The expanded definition of a PIE in paragraph R400.22(b), (c), and (d) of Chapter A of the Code incorporates the mandatory PIE categories specified in the *International Code of Ethics for Professional Accountants (including International Independence Standards)*. To implement this revised definition in the local context, the Institute's Ethics Committee has introduced a locally developed paragraph 400.23 A3, which refines the PIE definition by considering the unique facts and circumstances of Hong Kong. These local modifications were the outcome of a rigorous process involving extensive consultation and thoughtful deliberation.

Categories of entities considered as PIEs

Entities that fall within the following categories will now be classified as PIEs under Chapter 4A, Part A of the Code:

1. A publicly traded entity.
2. An entity one of whose main functions is to take deposits from the public, being licensed banks defined under the Banking Ordinance except where there is no statutory requirement for audit to be performed.
3. An entity one of whose main functions is to provide insurance to the public, being authorized insurers defined under the Insurance Ordinance except for (i) captive insurers; (ii) special purpose insurers; and (iii) insurers where there is no statutory requirement for audit to be performed.
4. An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15. They include:
   - Mandatory Provident Fund Schemes, as registered under the Mandatory Provident Fund Schemes Ordinance
   - Occupational Retirement Schemes (ORSO schemes), as registered under the Occupational Retirement Schemes Ordinance and are exempted under section 5 of the Mandatory Provident Fund Schemes Ordinance with total assets exceeding HK$100 million by reference to the most recent set of audited financial statements.

Encouraging broader assessment

Paragraph 400.24 A1 also encourages firms to determine whether to treat other entities as PIEs for the purposes of Part 4A, Chapter A of the Code. Factors to consider include the entity's importance within its sector and the potential systemic impact on the economy as a whole in the event of its financial failure as set in paragraphs 400.14 and 400.24 A1.

Furthermore, paragraph R400.25 introduces a transparency requirement for firms to publicly disclose the application of independence requirements for PIEs where they have done so. Correspondingly, the Institute has also made narrow scope amendments to Hong Kong Standard on Auditing (HKSA) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* and HKSA 260 (Revised) *Communication with Those Charged with Governance* as a result of Paragraph R400.25.

Implementation timeline

The revised definition of PIEs including the local refinements will be effective for audits and reviews of financial statements for periods beginning on or after 15 December 2024. Early adoption is permitted.

We encourage practitioners to thoroughly understand the PIE definition revisions through the Institute's Final Pronouncement and the accompanying Basis for Conclusions. Additionally, a video clip and Frequently Asked Questions document have been released to enhance understanding and awareness of the revised definition. We also recommend all professional accountants to visit the Institute's Resource Centre to the Code, which offers a wide range of technical resources related to ethics for professional accountants, helping you stay informed and compliant with the latest standards.

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

The proposed company re-domiciliation regime in Hong Kong

Examining the proposed company re-domiciliation regime in Hong Kong and its related observations

Traditionally, many multinational enterprises (MNEs), including those in Hong Kong, have established entities in "no or only nominal tax jurisdictions" (e.g. the Cayman Islands and the British Virgin Islands (BVI)) to hold their investments or undertake specific business activities for various reasons, including tax considerations, their relatively simple compliance obligations and less onerous information disclosure requirements.

However, these offshore jurisdictions have faced growing global scrutiny in recent years, prompting the enactment of new legislation to enhance corporate and tax governance. The advantages of maintaining offshore entities in these jurisdictions may no longer yield the desired benefits and there has been an increasing trend for MNEs to unwind their offshore structures in the past few years. Up until now, the most common Hong Kong entry option for foreign companies is establishing a new company in Hong Kong and winding up the old company in its original place of incorporation upon business transfer. In order to reduce the administrative complexity and compliance burden for restructuring, the Financial Services and the Treasury Bureau (FSTB) launched a public consultation in 2023 on the introduction of a company re-domiciliation regime (regime) to provide a simple and straightforward route for a foreign-incorporated company to change its domicile to Hong Kong while maintaining its legal identity and minimizing the disruption to the business operations. Taking into account the feedback received, the FSTB released the consultation conclusions and legislative proposals in early July this year.

In this article, we will discuss the challenges observed in the market for maintaining entities in no or only nominal tax jurisdictions. We will then explain why the regime can be an appealing choice for the business community and provide an overview of the key features of the regime.

Common challenges in no or only nominal offshore tax jurisdictions

Based on our observations and industry insights, we have identified several key challenges that MNEs may face when maintaining entities in no or only nominal tax jurisdictions which drive them to consider walking away from these offshore jurisdictions:

Economic substance and additional disclosure requirements

In recent years, these jurisdictions have faced heightened global scrutiny, resulting in, for example, the BVI and the Cayman Islands introducing economic substance requirements in 2019, which require offshore entities to maintain an appropriate level of economic substance in the BVI and the Cayman Islands, unless exceptions apply. BVI entities are also now required to submit simplified financial statements to their registered agents annually. Such rules have significantly increased the compliance costs for maintaining such offshore entities.

Global minimum corporate tax

Under the Organization for Economic Cooperation and Development's Inclusive Framework on Base Erosion and Profit Shifting, more than 140 members (including Hong Kong) agreed to imminently enact a new global minimum corporate tax of 15 percent for in-scope MNEs. The historical tax efficiency of such offshore structures may no longer be achievable and some MNEs with subsidiaries in these offshore jurisdictions are mulling over restructuring or exiting these jurisdictions entirely. For instance, Bahamas announced plans to forge ahead with the enactment and implementation of legislation to introduce a global minimum corporate tax of 15 percent during 2024.

Dual compliance requirements for non-Hong Kong companies registered in Hong Kong

Companies incorporated outside Hong Kong that have established a place of business in Hong Kong are currently required to register as a "non-Hong Kong company" under Part 16 of the Hong Kong Companies Ordinance. As a result, these companies must navigate and comply with two distinct sets of legal and compliance regulations, one in Hong Kong and another in their home jurisdictions, which imposes additional compliance costs and administrative burdens on MNEs.

Corporate identity

Entities incorporated in no or only nominal tax jurisdictions are facing increasing difficulties in running their business operations. For example, business counterparties may have concerns about doing business with entities incorporated in no or only nominal tax jurisdictions, and they face increased scrutiny by financial institutions in opening bank accounts and remitting funds. These factors cause significant disruption to the daily business operations for MNEs.

The attractiveness of the regime

In view of the above challenges, the regime may potentially become one of the optimal choices in executing business restructuring.

Sustainable structure

Hong Kong stands as a premier destination for businesses and investments looking to expand their presence in the

Mainland China, Asia, and beyond. With its transparent and efficient corporate governance framework, simple taxation system, and world-class professional services, Hong Kong offers compelling business opportunities to MNEs. Relocating the domicile of such offshore entities to Hong Kong would enhance brand image, alleviate the aforementioned practical challenges and smoothen business operations, especially for MNE groups with substantial business operations in Hong Kong already.

Preserving legal identity and business continuity
Unlike the existing commonly used entry option (i.e. setting up a new company in Hong Kong followed by a business transfer), re-domiciled companies can retain their legal identity. It can ensure a seamless transition to Hong Kong. By preserving their legal identity and business continuity, companies can maintain established relationships, contracts and branding, minimizing disruptions to the business operations and reducing the costs of business restructuring.

Key features of the regime

With reference to the latest legislative proposals, the key features of the regime in Hong Kong are summarized as follows:

Eligibility criteria

- A non-Hong Kong company applying for re-domiciliation to Hong Kong must originate from a jurisdiction that permits outward re-domiciliation.

- Applicable to the following four types of companies:
  1. Private companies limited by shares;
  2. Public companies limited by shares;
  3. Private unlimited companies with a share capital; and
  4. Public unlimited companies with a share capital.

- No economic substance requirement will be imposed.

- The property, rights, obligations and liabilities, as well as the relevant contractual and legal processes of the re-domiciled company will not be affected.
- The legal identity of the re-domiciled company will be retained. No new legal entity is created throughout the process.

Administrative procedures

- The Registrar of Companies (R of C) will be responsible for approving applications for re-domiciliation, and considering whether the companies have fulfilled specified requirements in relation to integrity, member and creditor protection and solvency.

- Certain documents are required to be filed with the application, including, but not limited to:
  - Proof of solvency – the latest financial statements of the company as at a date no more than 12 months prior to the application date.
  - Legal opinion on due incorporation and continuing existence.
  - Legal opinion that proposed re-domiciliation is allowed under the law of original domicile.
  - Members' consent by a resolution passed by at least 75 percent of the eligible members (if neither the law of the original domicile nor constitutional documents of the applicant requires such consent).

- Upon successful application, the R of C will issue a certificate of re-domiciliation.

- The re-domiciled company is required to notify the R of C and provide evidence of de-registration in its original place of incorporation within 120 days. An extension may be applied for if needed.

Tax arrangements

- Transitional tax matters – The Inland Revenue Ordinance will be amended to cover fair deduction for trading stock, specified types of expenditures, depreciation allowances, etc.

- Tax benefits or credits – Unilateral tax credits will be available if the re-domiciled company is charged an exit tax by its original domicile.
- Stamp duty – No stamp duty liabilities will arise from the re-domiciliation process, as it will not entail any transfer or change in the beneficial ownership of a company's assets.

Leveraging the regime for future restructuring

Industries should grasp this opportune moment to consider an inward re-domiciliation of their offshore companies to Hong Kong, particularly if they are already engaged in business activities in Hong Kong, although domiciled abroad. The regime aligns well with recent international business and tax developments and offers an attractive option for business restructuring in Hong Kong going forward.

Pending the legislative details, we hope the FSTB can clarify certain key items of the regime (e.g. whether a re-domiciled company will be considered as a Hong Kong tax resident for enjoying tax treaty benefits and whether the transfer of shares in a re-domiciled company will trigger Hong Kong stamp duty liabilities). Nonetheless, companies that are interested in re-domiciling to Hong Kong may wish to start mapping out their plan now. As always, seeking professional advice in the process is advisable, given the potential technical complexity involved and the unique circumstance of different companies.

*This article was contributed by **Ricky Chow**, member of the Institute's Taxation Faculty Budget Proposals Task Force and Tax Partner at PwC Hong Kong; and **Candice Mak**, Tax Senior Manager at PwC Hong Kong.*

TECHNICAL NEWS

The latest standards and technical development highlights

Members' handbook updates

Handbook Update No. 317 deals with the revision of the Statement 1.500 *Continuing Professional Development*, as follows:

- To provide the specific Continuing Professional Development (CPD) requirements for membership re-applicants.
- To provide the specific CPD requirements for members whose membership has been suspended.
- Other clerical edits.

Financial reporting

Invitation to comment

The Institute is seeking comment on International Accounting Standards Board (IASB) Exposure Draft *Equity Method of Accounting* – International Accounting Standard 28 *Investments in Associates and Joint Ventures (revised 202x)* by 29 November.

IASB review concludes the revenue Standard is working as intended

The IASB has concluded its Post-implementation Review of International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers* and published the Project Summary and Feedback Statement. Overall, feedback and research carried out during the review indicated that IFRS 15 is working as intended and provides investors with useful information. The IASB also identified a few application issues to consider in its next agenda consultation, which it plans to start in late 2025. These issues include:

- How companies decide whether they are the main seller or an agent in a transaction;
- How to report on payments to customers; and
- How IFRS 15 works alongside several other IFRS Accounting Standards.

Auditing and assurance

Invitation to comment

The Institute is seeking comments on *Proposed Hong Kong Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (HKSA for LCE). The proposal is to modify Part A of the *International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (ISA for LCE) issued by the International Auditing and Assurance Standards Board (IAASB), regarding the authority of the standard concerning the scope of the proposed HKSA for LCE in a local context, which includes:

- Refining the classes of entities prohibited from using the proposed HKSA for LCE to entities having public interest characteristics within a Hong Kong context.
- Establishing quantitative thresholds to determine the appropriate use of the proposed HKSA for LCE within a Hong Kong context.

Watch the video to understand the proposed standard. You may submit your views via email or participate in the survey by 17 November.

The IAASB has also issued the following:

- ISA for LCE – Authority Supplemental Guidance: This resource helps users in determining the appropriate situations to use the ISA for LCE, which further explains relevant matters and circumstances in accordance with Part A of the standard.
- ISA for LCE – Adoption Guide: This guide supports jurisdictions in adopting the ISA for LCE by providing valuable insights into the adoption process. It highlights common steps and successful approaches, and addresses potential challenges.

Empower the audit process with newly updated resources

A Roadmap of an Audit Engagement provides valuable resources that empower practitioners throughout the audit process. The roadmap outlines the essential steps of the audit engagement journey, offering clarity and direction at every stage. By building on key inspection findings related to the application of auditing and accounting standards identified by the Accounting and Financial Reporting Council (AFRC) in their inspection reports, this roadmap ensures that practitioners are well-equipped to handle the complexities of the audit engagements.

HKICPA Audit Practice Manual (APM) (2024 edition)

The APM 2024 edition has been updated to align with the requirements of HKSA 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, and includes some new features.

Members may register for the e-learning recording that provides an overview of the HKSA 600 (Revised). This session covers key changes from current practices and their impact to group audit engagements. Access the Institute's resource centre for the pronouncements, guides and articles that are relevant to the standard.

Disclosure in the auditor's report on the application of PIE independence requirements

The International Ethics Standards Board for Accountants (IESBA) recently released an update to its Questions and Answers (Q&As) publication on the IESBA Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code of Ethics. One notable update includes the revision of Q&A 20 on forms of public disclosure of the application of the PIE independence requirements when performing an audit of financial statements.

In July, the Institute released amendments to Chapter A of the HKICPA *Code of Ethics for Professional Accountants* relating to the PIE revisions including local refinements, as well as the narrow scope amendments to HKSA 700 (Revised) and HKSA 260 (Revised) as a result of the corresponding amendments by the IAASB to operationalize changes to the Code that require a firm to publicly disclose when a firm has applied the independence requirements for PIEs. The PIE revisions and amendments to HKSA 700 (Revised) and HKSA 260 (Revised) are effective for audits of financial statements for periods beginning on or after 15 December 2024.

Auditor's reporting requirements under the enhanced WPRS

The enhanced Producer Responsibility Scheme on Waste Electrical and Electronic Equipment (WPRS) took effect on 1 July. This enhancement has removed the requirement for suppliers and sellers to provide recycling labels when they distribute and sell regulated electronic equipment. However, the Environmental Protection Department of Hong Kong has clarified that auditors reporting on the suppliers' returns under the WPRS must still address the reporting requirements for recycling labels if the returns include quantities of labels reported prior to 1 July 2024. For guidance on this scenario, refer to Q15 in the EPD's FAQ.

The Institute's Circular on Reporting under Section 20 of the Product Eco-responsibility (Regulated Electrical Equipment) Regulation (Cap. 603B) offers guidance to practitioners engaged to report on suppliers' returns under the WPRS. The circular will be updated in due course to reflect the revised requirements.

Audit focus for 2024 year-end audits

The AFRC has released Audit Focus for 2024 Year-End Audits, providing guidance to auditors in effectively identifying and responding to the elevated risks in financial reporting and auditing created by the current uncertain economic conditions. Critical reminders to auditors are also provided in this publication to ensure that audit quality is upheld for the upcoming year-end audits.

New technology position to shape the future of audit and assurance standards

The IAASB has introduced a new Technology Position that will guide how it adapts its work to embrace the intersection of audit, assurance, and technology. This new position marks a significant step forward in the IAASB's ongoing commitment to enhancing the quality and relevance of its standards amid rapid technological advancement.

Balancing effectiveness and timeliness in audit and assurances standard setting

The IAASB released a public report that offers a comprehensive overview of the IAASB's progress in addressing key public interest issues and reiterates its strategic direction to continue bolstering confidence in audits and assurance engagements.

Ethics

Ethics Circular 1 *Guidance for Small and Medium Practitioners on the Code*

The Institute has updated the Ethics Circular 1 to incorporate the following revised provisions of the *Code of Ethics for Professional Accountants* (Code):

- Revisions to the Code Relating to the Definition of Engagement Team and Group Audits
- Technology-related Revisions to the Code

Q&As: HKICPA Revisions to the Definitions of Listed Entity and PIE in the Code

This set of Q&As complements the Basis for Conclusions for the *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* issued by the Institute in July. It aims to assist practitioners to better understand the revised requirements and guidance. Watch the video highlighting the key revisions.

IESBA Handbook 2024 edition

The IESBA released the 2024 Handbook of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* which includes:

- The revisions relating to the definition of a PIE which, among other matters, specifies a broader list of mandatory PIE categories.
- Changes to the definitions of "audit client" and "group audit client" in the Glossary arising from the approved revisions to the definitions of listed entity and PIE.
- Technology-related provisions of the Code.

Safeguarding auditor independence: Concerns surrounding procurement and purchases from audit clients

This article by AFRC highlights concerns regarding potential threats to auditor independence arising from procurement and purchases involving audit clients. It calls on audit firms to remain vigilant in managing their relationships with these clients and to implement robust procedures for identifying and mitigating any potential independence threats. The article also points out that the need for audit committees to take a more proactive role in safeguarding their auditors' independence.

Sustainability

HKICPA Exposure Drafts on HKFRS S1 and S2

The Institute published of the Exposure Draft HKFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and Exposure Draft HKFRS S2 *Climate-related Disclosures* (HK EDs) on 16 September, and the submission deadline ended on 27 October.

The Institute prepared an Explanatory Memorandum (EM) to accompany the HK EDs, explaining the history of development of the HK EDs, the reasons for full convergence with IFRS S1 and IFRS S2, the consultation questions and next steps. The EM also contains a number of FAQs and high-level summaries of key comments received from previous local consultations on IFRS S1 and S2 and how those comments have been addressed.

IFRS Foundation publishes guide for companies as investors call for voluntary application of ISSB Standards

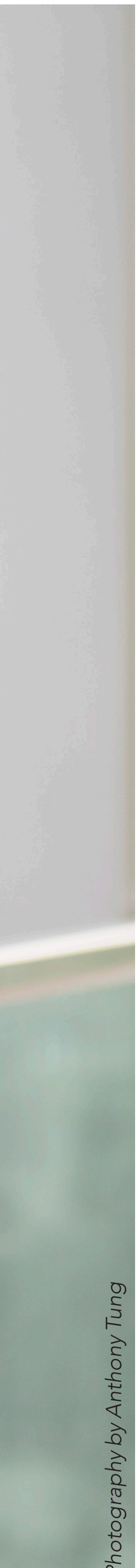
Investors globally have called on companies to voluntarily adopt ISSB Standards to provide investors with decision-useful, globally comparable information in the absence of regulatory requirements.

To support companies in meeting this demand, the IFRS Foundation has published *Voluntarily applying ISSB Standards – A guide for preparers*. The guide is designed to support companies, particularly those in jurisdictions without regulatory requirements to apply ISSB Standards, as they start to adopt these standards voluntarily. It also aims to help companies communicate their progress to investors.

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

THOMAS LAU

Senior Lecturer at Hong Kong Metropolitan University



Photography by Anthony Tung

Before switching to a career in education, Thomas Lau, Senior Lecturer at Hong Kong Metropolitan University, worked in audit and then Hong Kong tax compliance at EY. He shares how he is applying the philosophy of the Institute's updated Qualification Programme (QP), and his experience implementing it, to a university setting

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

In 2011, I joined The Open University of Hong Kong (OUHK) as a teaching assistant and embarked on my education career since then. I had been working at OUHK for 7.5 years and in 2019, I joined the Education and Training (E&T) department of the Institute to work on the development of the new QP and its promotion. In 2022, I rejoined OUHK, now Hong Kong Metropolitan University, as a Senior Lecturer. Alongside teaching financial reporting and Hong Kong taxation for both undergraduate and postgraduate students, I also assume an administrative role as the Programme Leader of Accounting.

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

When it comes to teaching, I get a sense of satisfaction when students are able to understand difficult accounting concepts or legal concepts in tax after my lesson. I try my best to illustrate the concepts using daily life examples and examples from the news or well-known organizations. As Programme Leader of Accounting, I oversee operations such as student in-take, daily running, examination and evaluation of accounting courses under the accounting programmes. This is challenging because I not only need to handle students' case and address their study needs but also manage and improve the accounting programme as a whole by working closely with my colleagues and supervisor. Despite the heavy workload, it is rewarding working with colleagues in the Accounting Programme Team as well as administrative staff in organizing student events. In 2023, a seminar series called Masterclass Series was held in which guest speakers such as partners from the Big Four were invited to come to the class. The series combined the technical knowledge taught in class with the practical application of it, and the students found it very enlightening.

How are you working to ensure accounting programmes can support aspiring accountants to succeed in a changing world?

Both the profession and the preferences of students are evolving. In the old days, the accounting profession required a lot manual work but now it involves more consultancy and cross-function services on top of audit and taxation. There is little information available to students on new or different aspects of accounting services like valuation, insolvency, restructuring, anti-money laundering and ESG consultancy. As such, accounting programmes are evolving to bridge the students' learning needs and what is required by the accounting profession. For example, more courses on ESG are incorporated into the accounting programme and there is an elective course on contemporary accounting and finance issues for students to select. In addition to incorporating more aspects of accounting knowledge into the programme, I have made an effort to incorporate more practical elements in the accounting programme. The Masterclass Series is an example of this, as well as workshop sessions that are similar to the Institute's QP workshops in the tutorial classes. This is inspired by the philosophy of new QP, which has an emphasis on practicality and experientiality for students.

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

I will continue to devote myself to accounting education and perhaps providing education and training from different aspects in order to help foster all-rounded future accountants. I also wish to learn more about the psychological aspects in accounting education such as the motivation for becoming a CPA. I find investigating human behaviour very interesting, and I think it provides value to many stakeholders like educators, professional bodies and accounting firms in formulating strategies for student in-take, members acquisition and talent retention.

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

I am so thankful to have come across many brilliant supervisors in my career so far. For example, Simon Chung, who was the senior tax manager and my counsellor at EY, taught me the importance of details and to think from the clients' perspective. Dr. Lynne Chow, the head of accounting at OUHK at the time I first joined the university, showed me the dedication it takes to enhance the learning experience of students. Kit Wong, Director, and Lusa Lam, Deputy Director, of E&T at the Institute, had demonstrated the importance of being impactful in presentations, and the significance of policy setting when running the QP.

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

The old QP had provided me the technical knowledge as well as the practical application for being qualified as a professional accountant. In particular, the experience of attending workshop was fruitful because of the involvement of team discussion and sharing from practitioners. As someone who was involved in the development of the new QP, I would say that it provides an even more comprehensive learning experience which is more closely related to the real life working environment.

Navigating the Tech Wave: Insights from the Practice Management Series for SMPs

Expert panellists share key learnings from their own digital transformation journeys during a discussion covering digitalization for small- and medium-sized practices

A recent panel discussion entitled "Navigating the tech wave – Digitalization experiences in small and medium accounting practices" was held as part of the Practice Management Series for Small and Medium Practices (SMPs). The event brought together industry professionals to share their experiences and insights on digitalization for SMPs. The session featured Jimmy Yip, Deputy Chairman of the Small and Medium Practices Committee (SMPC) and Chairman of its Practice Management and Digitalization Support Group (support group); Webster Ng, a member of SMPC and the support group; and Thomas Lee, also a member of the support group.

Current technologies in use

The panellists discussed their current technologies. Yip uses tools like ChatGPT for speeches, emails, and reports, and values digital tools for practice management, such as time sheets and expense claims software, to reduce paperwork and meet anti-money laundering requirements.

Ng relies on artificial intelligence (AI) to enhance work quality and noted the partial digitalization of SMPs. He emphasized the need for tools that align with audit quality standards and government support for transitioning to digital methods, noting that these tools will likely become mandatory in the future.

Lee's company employs generative AI for tasks like writing papers, designing policies, and creating client communications. He mentioned that prompt engineering improves the skill of giving instructions to junior staff, leading to better results.

Realizing the need for tech

The panellists reflected on the moments when they realized the necessity of elevating their adoption of technology. Ng recounted his experience during the SARS outbreak, where the use of Microsoft Excel and Word became ubiquitous. However, by 2017-2018, he noticed a decline in efficiency and realized they had kept the same version of the operating system over the years, and that there was a growing need to keep his tools standardized and updated. According to Ng, this was especially important as file incompatibility would cause issues given the constant need to exchange documents with clients.

A second critical moment for Ng was when the firm could not rely on conventional means of collecting payments during the major disruptions caused by the COVID-19 pandemic. Ng realized that clients would not have any reason not to submit the necessary payments with digital payments.

Lee highlighted the significant shift that was spurred on by the COVID-19 pandemic, which accelerated the adoption of technology universally, allowing for the availability of more affordable, good software. This was also reflected in the government's digitalization efforts, such as the Inland Revenue Department roll out of the profit tax returns electronic filing system.

Yip added that external forces, such as regulatory requirements and client demands, often drive the adoption of technology. He shared his experience with cloud-based applications and the need for tools to conduct required audit tasks, such as journal entry testing. He also mentioned the importance of being aware of technological advancements and the role of the Institute in providing information to increase exposure to new tools.

Overcoming resistance to change

The panellists discussed the challenges of overcoming resistance to change within their organizations. Lee noted that resistance often stems from a lack of understanding and the need for management to handle change effectively. He emphasized the importance of staff buy-in and the benefits of allowing colleagues to drive the change process, as opposed to a top-down process.

Ng shared his insights on the TOE framework (Technology, Organization, Environment), a theoretical framework that explains technology adoption in organizations and explains the common resistance to digitalization. He highlighted the need for a mindset shift and the willingness to adapt to new tools, regardless of their complexity.

Yip discussed the importance of building trust in new technologies and the role of early adopters in reducing resistance. He emphasized the need for a phased approach to implementation, allowing staff to test and provide feedback before full-scale adoption.

Advantages of digitalization

The numerous benefits of digitalization were highlighted, including enhanced efficiency and accuracy, and standardization of work. Panellists discussed the importance of automation in reducing manual tasks and the role of digital tools in improving data management and analysis.

Yip shared his experience with tools that help identify exceptions and inconsistencies in financial data and emphasized the importance of data integrity, and the value of technology in reducing human errors and improving the quality of work. Another advantage he mentioned was enhanced client experience, sharing his experience of adopting a platform for client communication that improves transparency by facilitating things like requesting documentation.

Yip also added that, by moving away from paper documents, the firm is able to save on storage space and allow for a cleaner, more modern office environment.

Ng highlighted the role of big data analysis in decision-making and the need for SMPs to adopt digital tools to stay competitive. He also discussed the importance of understanding and addressing confidentiality and security concerns associated with digitalization.

Learn more

Technology is the key to the future of accounting, and the Institute is committed to supporting its SMP members in their digital transformation journey, providing them with the resources, support, and guidance they need to successfully navigate the tech wave. Read the Institute's report for more insights for SMPs to effectively integrate technology into their operations.


1996
Success symbol
CPA
Success ingredient