

DRIVING BUSINESS SUCCESS

Issue 7 Volume 15 July 2019

PLUS:

SMART HOMES

Privacy concerns stemming from the rise of smartphone-controlled homes

PROFILE

Todd Handcock, Chairman of the Canadian Chamber of Commerce in Hong Kong

ACCOUNTANT PLUS

William Lo, Executive Director of Finance of the Airport Authority Hong Kong



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Best Corporate Governance Awards 2019

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For more details, scan the QR code or visit www.hkicpa.org.hk/BCGA.



“It is vital for the leadership of the Institute to meet with a wide range of our members to hear their voices. As well as members, meetings with stakeholders keep us informed about other developments which may affect the profession.”



Dear members,

July brings honours from the government and I congratulate the Institute members on their honours in the 2019 Government Honours List. Past vice-president Carlson Tong received a Gold Bauhinia Star, member Fung Pui-cheung, a Bronze Bauhinia Star, and past president Clement Chan received a Medal of Honour. There were also three new Justices of Peace, Kwok Wing Leung, Andy, Leung Yin Fun, Fanny, and lay council member Theresa Ng Choi Yuk. These honours are recognition for all of their commitment and dedication to Hong Kong and to its future, and I heartedly congratulate all of them for receiving the recognition they deserve.

July is also the start of the Institute's new financial year – and it's a year with many changes and opportunities ahead. The Institute has a new Chief Executive and Registrar Margaret Chan, who is getting to grips with the Institute's activities and has been meeting our stakeholders, the rolling out of the new Qualification Programme to train future generations of Accountants Plus, and – as you may have noticed – changes to *A Plus*.

This is the first revamp for the magazine in four years and will introduce new features in this issue and next. This issue brings new columns called “Second Opinions”

and “Young Member of the Month.” Next month will introduce a quarterly specialist field feature – starting with forensic accounting, “Meet the Speaker” discussing an upcoming continuous professional development course, and a refreshed life section featuring travel and reading suggestions from the Institute's members and students. Please let us know what you think about the new features.

It is also the entry time for the 20th Best Corporate Governance Awards, the Institute's flagship awards for promoting good corporate governance among Hong Kong entities. The awards are open for entry until 12 August. The awards are a recognized and respected yardstick of not just corporate governance but also sustainability and social responsibility reporting standards. I look forward to chairing the awards judging panel and learning more about how the best achievers in corporate governance go beyond the minimum legal and regulatory requirements and provide voluntary disclosures and practices that set a high bar. You can find out more about why corporate governance is important in this month's thought leadership column.

Margaret and I attended the Integrity Cup Badminton Competition held between 19-21 July in Dongguan to cheer on our Institute

team in the competition with 26 other teams from across Guangdong province, Macau and Hong Kong. The team achieved great success, winning the overall competition and also individual awards including men's singles, men's doubles and women's doubles. Congratulations to the team for their results.

I attended the Recreation and Sports Club of Hong Kong Professional Bodies' Annual Dinner on 27 July with Vice-President Nelson Lam, the chief executive, and representatives from the Institute's sports interest groups. We cheered on our CPA singers in the competition and enjoyed a relaxing night socializing with representatives from Hong Kong's other professional bodies.

It is vital for the leadership of the Institute to meet with a wide range of our members to hear their voices. As well as members, meetings with stakeholders keep us informed about other developments which may affect the profession.

Finally, as we move into August, there's no Council meeting, but the leadership team will still be working hard with Margaret to prepare the Institute for the future. If you're taking some time away from work to go for a summer break with your families, I hope you enjoy your break, recharge, and come back refreshed.

Patrick Law
President

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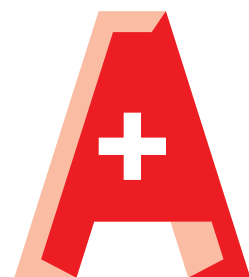




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Landing the job

William Lo, Executive Director of Finance at Airport Authority Hong Kong, on how CPA skills come handy when running one of the world's busiest airports



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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香港會計師公會

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M&L

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The digital version is distributed to all 44,269 members, 16,623 students of the Institute and 2,358 business stakeholders every month.



NEWS

Institute news Business news

Best Corporate Governance Awards 2019 calls for entries

The Institute's Best Corporate Governance Awards, which celebrates its 20th anniversary this year, is now open for entries until 12 August.

Eligible listed companies and public sector or not-for-profit organizations can enter the following categories:

- Hang Seng Index (HSI)-constituent companies
- Non-HSI-constituent companies – Large market capitalization
- Non-HSI-constituent companies – Medium market capitalization
- Non-HSI-constituent companies – Small market capitalization
- H-share companies and other Mainland enterprises
- Public sector/Not-for-profit organizations – Large organizations
- Public sector/Not-for-profit organizations – Small- and medium-size organizations

Other companies or organizations that demonstrate sound corporate governance performance, or strengths in important facets of good governance, may be given special mentions, while commendations may be awarded for website corporate governance-related information.

Smaller listed companies, with a market capitalization of no more than HK\$6 billion as of 30 April, and public sector or not-for-profit organizations, are invited to apply to be considered for the Self-nomination Awards for Good Corporate Governance Practices. "This particular award focuses on sectors where, experience shows, greater effort is still needed to promote effective corporate governance," explained Institute President Patrick Law.

More details on the 2019 Best Corporate Governance Awards can be found on the Institute's website.

National Day Celebration Dinner

The 70th National Day Celebration Dinner for the accounting profession will take place on 12 September at the Hong Kong Convention and Exhibition Centre. Members are encouraged to book seats, become a sponsor, offer compliments in newspaper supplements, and donate prizes.

More details are available on the Institute's website.

2019 Honours List

The Institute sends its heartiest congratulations to the following members who received honours from the HKSAR Government for their distinguished service. Congratulations to past vice-president Carlson Tong (Gold Bauhinia Star), Fung Pui-cheung (Bronze Bauhinia Star), and past president Clement Chan (Medal of Honour). The Institute also offers its congratulations to new Justices of the Peace Kwok Wing Leung, Andy, Leung Yin Fun, Fanny, and lay council member Theresa Ng Choi Yuk.

Annual taxation conference 2019

More than 950 people attended the Institute's annual taxation conference on 20 July at InterContinental Hong Kong. Speakers covered recent changes in tax legislation, new departmental practices and proposed tax initiatives, and Hong Kong Board of Review decisions and court cases. During the conference, KK So, Chair of the Institute's Taxation Faculty Executive Committee, and Partner - Tax Services at PwC, moderated a panel discussion on contemporary transfer pricing issues in Hong Kong. Look out for a write up of the panel discussion in a future issue of *A Plus*.

Renewal of CIMA agreement for mutual examination paper exemptions

The agreement for mutual examination paper exemptions between the Institute and the Chartered Institute of Management Accountants (CIMA) has been renewed for five years. To find out more about the requirements for



950+

NUMBER OF ATTENDEES AT
THIS YEAR'S ANNUAL TAXATION
CONFERENCE

Institute members apply for CIMA membership, visit the Institute's website.

Enrol in the China tax course

The Institute is accepting enrolments for the China tax course, starting on 24 August, a part-time programme providing foundation knowledge on Mainland taxation laws and practice, and their application to tax computations. It is a compulsory component of the Institute's

Professional Diploma in China Tax (中國稅務專業文憑). The course, conducted in Cantonese or Putonghua, consists of nine workshops and seven tutorials covering enterprise income tax; individual income tax; value-added tax; consumption tax; customs duty; and transaction and property-related taxes and specific purpose taxes. Those interested should enrol by 16 August or attend the demo lesson on 8 August.

Disciplinary finding

**Chan Kam Fuk, CPA (practising) and
Dominic K. F. Chan & Co.**

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.

Chan is the sole proprietor of Dominic K. F. Chan & Co. which issued an unmodified auditor's opinion on the consolidated financial statements of a Hong Kong listed company, Art Textile Technology International Company Limited (now known as Art Group Holdings Limited), and its subsidiaries for the year ended 30 June 2015.

The Institute received a referral from the Financial Reporting Council about irregularities in the audit of the company's financial statements. The financial statements disclosed basic and diluted loss per share that incorrectly included profits attributable to non-controlling interests. In addition, the diluted loss per share wrongly took into account potential ordinary shares which had an anti-dilutive effect. As a result of the errors, there was non-compliance with Hong Kong Accounting Standard (HKAS) 33 *Earnings Per Share*. In their audit, the respondents failed to identify the incorrect amounts of loss per share disclosed in the financial statements.

Decisions and reasons: The respondents were reprimanded and were ordered to pay a penalty of HK\$80,000 and costs of disciplinary proceedings of HK\$36,630. When making its decision, the Disciplinary Committee considered that loss earnings per share reflect the performance of a company and are key indicators for steering equity investment decisions, so accuracy is crucial. The committee further noted that the respondents had a past record of non-compliance with professional standards in reporting on a listed company's financial information.

Resolution by Agreement

Kwok Kwan Hung, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care in sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants.

Kwok was an executive director and the chief financial officer of Sage International Group Limited, a Hong Kong listed company. He supervised the company's financial reporting team and was responsible for preparing the group's consolidated financial statements for consideration and approval by the board of directors. The group's audited consolidated financial statements for the year ended 31 March 2011 and nine months ended 31 December 2011 contained material errors in the accounting of assets and liabilities acquired in two acquisitions, several convertible bonds issued by the company and the company's share options and warrants. The errors represented breaches of HKAS 39 *Financial Instruments: Recognition and Measurement*, Hong Kong Financial Reporting Standard (HKFRS) 2 *Share-based Payment* and HKFRS 3 *Business Combinations*.

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

1. Kwok acknowledges the facts of the case and his non-compliance with the relevant professional standards; and
2. Kwok be reprimanded and pay the Institute's costs of HK\$10,000.

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

80%↑

INCREASE IN DEMAND FOR FINANCIAL COMPLIANCE TALENT

Multinational companies in Mainland China are willing to pay up to 2 million yuan for professionals with experience in handling fraud, money laundering and sanctions, according to headhunter DHR International. The increase in corruption in the region has increased demand for financial compliance officers, especially younger, technology-savvy individuals in their 30s and 40s, by 80 percent. "As China continues to open up to the financial sector, it is going to add demand for senior financial officers and associated expertise on the Mainland," said Managing Partner of DHR International Robert Knight.

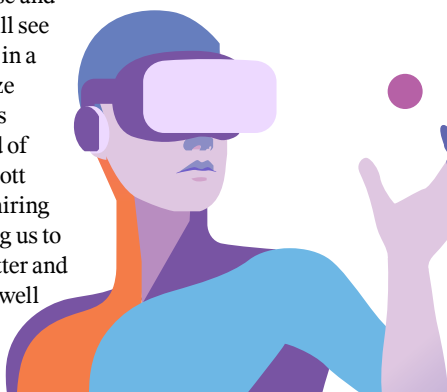
FORMER KPMG SOUTH AFRICA CEO MOVES TO LONDON

Nhlamu Dlomu, KPMG South Africa's former chief executive officer, moved to KPMG's London office to take on the role of Global Head of People on 8 July. She is in charge of managing the firm's human resources portfolio worldwide. Dlomu was first appointed CEO of KPMG South Africa in 2017 – the first black woman to hold the position – as part of a reshuffle of the firm's team, following the reputation damage caused by the Gupta family scandal.



BDO USES VIRTUAL REALITY IN HIRING PROCESS

BDO United Kingdom has started using an Alice in Wonderland-themed virtual-reality game as part of its interview process. The game tests problem-solving skills, independent thinking, and how interviewees assess cause and effect. One challenge will see recruits try to find a key in a room, which changes size depending on the actions taken. BDO U.K.'s Head of Audit and Assurance Scott Knight said the unique hiring process is key to "helping us to know the real person better and understand their IQ, [as well as their] emotional and digital intelligence."



SIX IPOs RAISE MORE THAN HK\$4 BILLION AT HONG KONG STOCK EXCHANGE

Six companies debuted their initial public offerings (IPO) on the Hong Kong Stock Exchange on 16 July, raising a total of HK\$4.4 billion. The biggest was Zhongliang Holdings Group, a Shanghai-based developer, with its HK\$2.94 billion IPO. The other companies are involved in businesses ranging from property development, education and computer services. This brings Hong Kong's fundraising tally to almost HK\$74 billion for the year so far, but the city is still ranked third in global IPOs, behind Nasdaq and the New York Stock Exchange. The world's largest brewer Anheuser-Busch announced plans to scrap its US\$9.8 billion Budweiser IPO on the Hong Kong Stock Exchange this month to seek relief from its heavy debt burden.

STEPSON OF EX-MALAYSIA LEADER ACCUSED OF LAUNDERING UP TO

US\$245 MILLION



Riza Aziz, the stepson of Malaysia's former prime minister Najib Razak, has been charged with laundering more than US\$245 million. The alleged offences are said to have taken place in Singapore and Los Angeles from 2011 and 2012, and are linked to the 1Malaysia Development Berhad scandal which saw billions siphoned out of the state wealth fund allegedly by Najib for personal use. Aziz, who is the son of Najib's wife Rosmah Mansor, has pleaded not guilty to all charges.

U.K. WATCHDOG PROPOSES LIMIT TO NON-AUDIT STANDARDS

The United Kingdom's Financial Reporting Council (FRC) launched a consultation on 15 July to change rules designed to address conflicts of interest among auditors and limit non-audit services firms can provide to clients, which if passed, could result in large fines. "Our audit inspections and enforcement activity continue to identify a lack of professional scepticism and independence as being key points of failure when things go wrong," said Stephen Hadrill, CEO of the FRC.

"Our audit inspections and enforcement activity continue to identify a lack of professional scepticism."

G7 MINISTERS AGREE ON DIGITAL TAX PLAN

G7 finance ministers reached a consensus on steps towards ensuring fair taxation of large tech companies, such as Google and Facebook, during a G7 meeting on 17 July in Chantilly, France. New rules will be developed in continuing negotiations at the Organization for Economic Co-operation and Development to address digitalized business models. Currently, digital giants pay little tax in Europe by funnelling sales through countries with favourable tax regimes, such as Luxembourg and Ireland. Earlier this month, the French parliament imposed a 3 percent turnover tax on tech companies. In response, the Trump administration announced a probe into France and threatened to impose tariffs.



HKMA ANNOUNCES NEW CHIEF EXECUTIVE

The Hong Kong government will promote its longest serving Deputy Chief Executive, Eddie Yue Wai-man, to be the next chief executive of the Hong Kong Monetary Authority (HKMA). He will succeed Norman Chan Tak-lam, who has served as head of the HKMA for 10 years, at the end of September. Yue has been with the HKMA since 1993, and was appointed to the new role by Financial Secretary Paul Chan Mo-po, who said Yue is the most experienced and suitable candidate. He is expected to take charge of the city's HK\$4 trillion exchange fund and oversight of the peg to the U.S. dollar.



FASB DELAYS ACCOUNTING STANDARDS

The Financial Accounting Standards Board in the United States voted on 17 July to propose delays to new major accounting standards for private companies, non-profits and small reporting companies. This includes standards involving credit losses, leases, hedging and long-duration insurance contracts. The delays, which range between one and two years, will give companies more time to train staff in implementing the standards.



SEC APPOINTS NEW CHIEF ACCOUNTANT

The Securities and Exchange Commission (SEC) in the United States has appointed Sagar Teotia to be its new Chief Accountant. Teotia replaces Wesley Bricker, who stepped down in May, and will be responsible for overseeing the Financial Accounting Standards Board and the Public Company Accounting Oversight Board. He joined the SEC in 2009 as a professional accounting fellow before joining Deloitte, where he became a partner in its national office. He rejoined the SEC in 2017 as deputy chief accountant. He said he was honoured and excited "to continue to work for the benefit of investors across the country."

HIGH CEO TURNOVER IN 2018

17%
OF CEOs LEFT
THEIR ROLE
IN 2018

The turnover rate of chief executive officers hit 17 percent in 2018, according to the 2018 CEO Success study by PwC. The global study also looked at 2,500 public companies over the past 19 years and found that CEO turnover was highest in Australia, Chile and Poland at 21.9 percent; and in India, Russia and Brazil at 21.6 percent. The lowest was in North America at 14.7 percent, and Mainland China at 7 percent. The study also found that the median tenure of a CEO is five years, and that 39 percent were dismissed over errors in judgement rather than financial performance or board struggles.

HOME SMART HOME

Smart homes offer consumers the convenience of being able to control their home environment at the touch of a button, even when they are not inside their property. **Nicky Burridge** talks to experts about how these homes may compromise privacy and lead to people's data being misused

Illustrations by Ester Zirilli

Imagine waking up every morning to the sound of soothing music and dim lights that become steadily brighter when it is time to get out of bed. Or having a bathroom that senses when you walk into it and automatically turns on the lights and fan. Or having the ability to turn on your air conditioning while you are travelling home from work.

These innovations once sounded futuristic, but they are all available in Hong Kong today.

While the market for smart home products is still at an early stage in Hong Kong, it is growing as consumers wake up to the benefits connected living offers. HKT Smart Living was one of the early entrants when it launched its smart home services in 2012. The company operates at the top end of the market, offering services for larger properties that typically require custom fitting and bespoke systems. It creates connected homes that enable customers to control everything from dimming their lighting, to closing the curtains, to turning on music or changing the setting on their air conditioning through their smartphone. It recently teamed up with Samsung to offer voice control for Samsung appliances.

"A smart home makes use of technologies to enhance the quality of living and bring customers extra comfort, convenience and efficiency," says Ringo Ng, Managing Director of HKT's Consumer Group.

Florence Kong, Founder of Hong Kong-based architectural and interior company FAB-A-MATTER, incorporates smart home features into her designs. She says most customers want the ability to control lights, curtains and temperatures through their smartphone. "Think about closing the curtains, switching off the lights, adjusting room temperature or ventilation, setting the security alarm, or any of the little things that most people might want to do before leaving their homes," she says. "With your smartphone or Apple Watch, all you need is to connect to your home, and you can take care of these tasks on the go."

She adds that some customers also want smart security devices and door access control, as well as the ability to use voice and gesture activation to control the devices in their property. "The market for smart homes in Hong Kong is definitely growing. We have been working with developers like Sun Hung Kai Properties and private clients in designing smart homes. There are more property developers willing to spend more to incorporate Internet of Things (IoT) into the design to make their products more competitive in the property market. We see that there is more demand in the area. Apart from smart home design, we are also working in smart office and hotel design for corporate clients and hotel owners," Kong explains.

Alongside bespoke services, residents in Hong Kong also have the option to set up "off the shelf" services, such as Amazon Alexa or Google Home, to control devices in their property.

Daniel Chun, Chief Executive Officer of Hong Kong-based Remotec Technology, which focuses in smart controls, home automation, and the emerging opportunities in the IoT market, says: "The Hong Kong market is quite fragmented with many products distributed through traditional retailers like Fortress, computer shops and online stores." He points out that as well as providing convenience, smart homes can help homeowners save money, both through enabling devices to be controlled remotely and through using the information they collect to use them more efficiently. He thinks smart home devices can be particularly valuable in helping to limit the use of air conditioning, either by using smart fans to circulate cool air better, or by using smart control technologies and smart thermostats to limit the length of time they are running.



“Accountants can utilize their trust ecosystem in the smart home area to provide comfort to consumers.”

A role for accountants

Data security and customer privacy issues are likely a key focus for accountants advising companies in the smart home sector. In Hong Kong, data is covered by the Personal Data (Privacy) Ordinance, but Kok Tin Gan, PwC Hong Kong Cybersecurity and Privacy Partner, warns that the rules are a bit outdated in terms of breach enforcement and disclosure aspects. Companies based in the city can also fall under the far more wide-reaching European Union General Data Protection Regulation (GDPR). Ian Christofis, Managing Principal Consultant at nCipher Security, an encryption hardware specialist, explains: “If companies do any business with people in Europe and collect information about them, they are subject to the GDPR, meaning they have to protect the data properly and be transparent about what they are doing with it.” If companies breach the regulations, they can be fined up to 4 percent of global turnover.

“A lot of companies have been caught by the law because of its global reach. If a company is based in Hong Kong but provides a global service, such as a hotel chain with guests making bookings from Europe, the GDPR applies,” Christofis warns.

Gan agrees: “Hong Kong is an international city, so there will be a lot of Europeans coming here to work, stay in hotels, or live here as expats. As a result, a lot of companies in Hong Kong will fall under the GDPR.”

To help companies avoid falling foul of the regulations, he advises them to be fair and transparent, stipulating to the consumer what information they are collecting, what the purpose of collecting it is, and giving them the right to opt out if they want to.

He adds that it is also critical that companies get their security right. “I see a lot of companies have neglected security, but after they have collected sensitive information from the consumer, they need to protect it. They need to encrypt it and be clear what the retention period is.”

Gan thinks accountants can play a role in helping to build trust in the smart homes sector. “The role of accountants has evolved. If we look at what we do now, we are trying to build trust beyond the numbers. Accountants can utilize their trust ecosystem in the smart home area to provide comfort to consumers that things are run in a transparent and fair manner,” he says.

Significant growth potential

Chun’s company has been in business for more than 28 years, with most of its clients in the United States, but he expects demand in Hong Kong to pick up, particularly if individual appliances could be retrofitted with the technology. “There are 2.5 million households in Hong Kong and there is close to 95 percent coverage of broadband Internet at affordable prices,” he says. He adds that with most households having air conditioning, fans and lighting, there is likely to be significant pent-up demand for a simple smart home value-proposition.

Kok Tin Gan, PwC Hong Kong Cybersecurity and Privacy Partner, points out that most of the products available in Hong Kong are at the lower end of the spectrum, and really futuristic innovations, such as smart refrigerators that monitor when the milk is running low and automatically put in an online order with a grocery store, have not yet made it to the city. He adds that the market in Mainland China is much more developed than in Hong Kong, with many developers factoring in smart home applications when they build apartments. “I think if you look at the overall digitization trend, Hong Kong tends to lag other places,” he says.

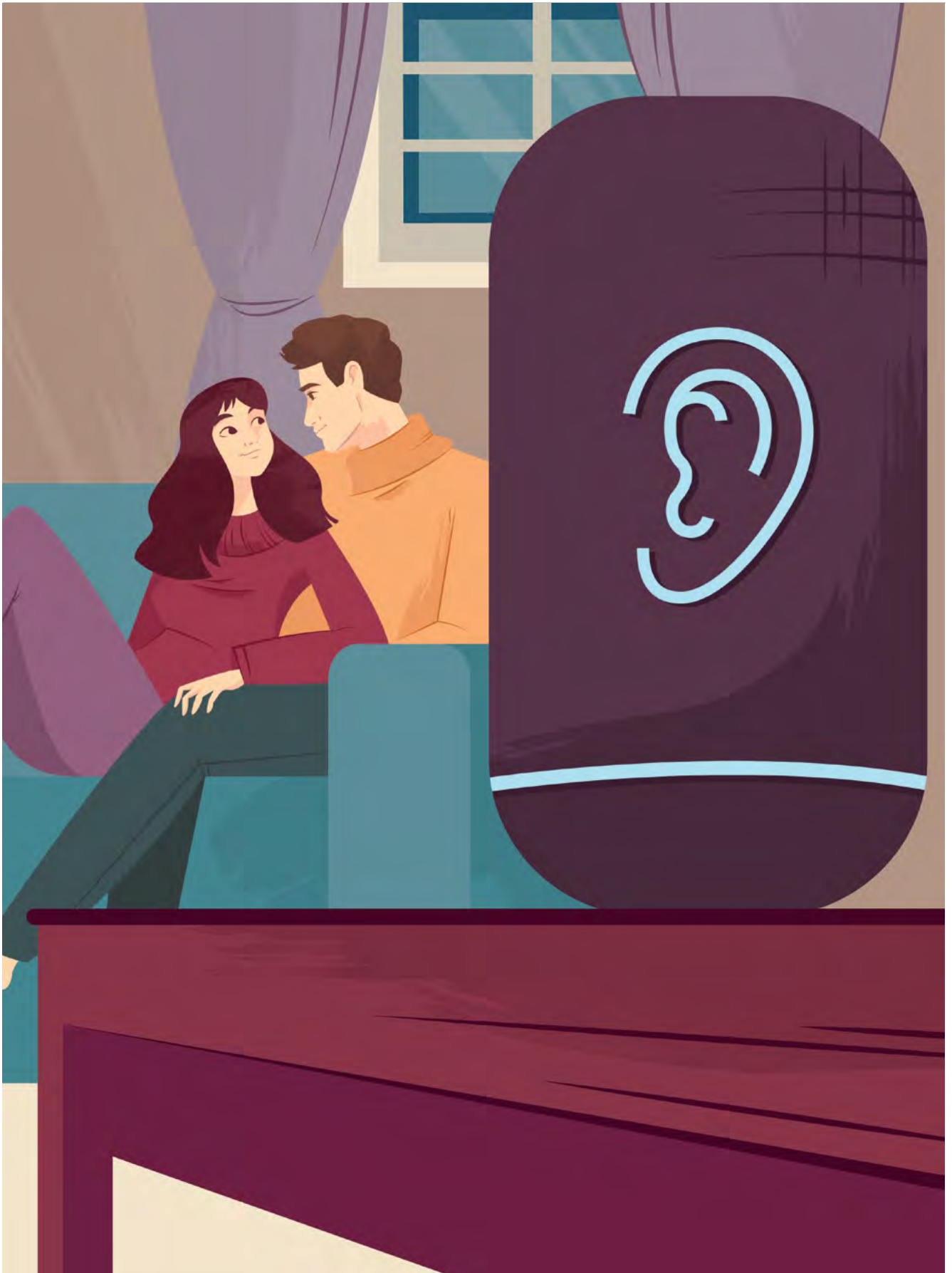
But things look set to change. Smart city has been identified as one of the Hong Kong government’s four innovation focus areas, and in 2017 it set the target for Hong Kong to be a smart city within five years. While smart city is different from smart homes, the smart homes sector should still benefit from improvements to the underlying infrastructure, such as the planned launch of fifth generation communications technology, which enables better implementation of IoT. “We see that both the awareness and market in Hong Kong for smart homes has been growing in the last few years, with people creating a smart home when they move into a new house or during renovation,” says Ng of HKT.

Jason Ho, Vice President, Electrical and Network Assurance, at Intertek Hong Kong, says: “The demand could be huge in this area once consumers catch up with the trend of smart homes as the property market in Hong Kong is well developed.”

But there are a number of hurdles the market needs to overcome before smart homes can really take off. One of the issues is a lack of Cantonese language support, which is limiting the take up of smart speakers and voice activated producers.

The small number of players in the smart home market in Hong Kong is a challenge, as it limits competition and keeps prices higher. “I think if there was more competition in the market, more people might be able to enjoy connected living in the future,” says Kong. “I am very positive for the future.





I believe there will be more artificial intelligence (AI) and augmented reality incorporated into smart home products. This will bring more comfort, convenience and enjoyment to our daily life.”

A spy in your home?

Despite the many advantages smart homes offer, there are concerns about data security and the privacy of users. Ian Christofis, Managing Principal Consultant at nCipher Security, a United Kingdom-founded encryption hardware specialist, explains that privacy is a major concern due to the fact that many smart home devices are either voice or gesture activated. “There are a whole range of things, like Amazon Alexa and Google Home, which are listening all the time and waiting for a command,” he says. “Consumers need to know what information is being collected and if the company is only using it for the purposes that they say they are, and if they are being transparent about it.”

He explains that most manufacturers claim they do not send voice recordings back to their cloud service unless they hear an activation phrase through the speaker, but this is not always the case. “There has also been a lot of press lately about companies admitting they do keep some of the recordings in archive material to help train their algorithms to better recognize the commands and understand people.

“So, when people think they are having a private conversation in their lounge, it could potentially be going back to a cloud service and be used for further analysis and training, including being listened to by staff at that organization,” Christofis says.

He adds that if people have

gesture-activated devices, such as a camera on their television, it could also be filming information and sending it back. “Privacy advocates want there to be clear transparency about what is happening with this information.” There are also potential issues with security. “Smart devices can be hijacked through a virus or downloading malware on to them. They can then be used as a surveillance device or a botnet to attack other servers,” he says.

He adds that if people have home surveillance cameras, they need to be very sure that they are the only ones who can see what they record. “There was a case in the U.K. recently where people using an app to view their home cameras were actually looking at someone else’s house.”

Christofis points out that it is not only audio and video recordings that people need to ensure are secure, as much more simplistic devices, such as temperature sensors, can also show information, such as when people typically get home. Gan of PwC agrees that security should be a key consideration. “The more things you have connected to the Internet, the more your chance of being attacked increases. In the past if you only had one connected device, you only had one entry point for hackers,” he says.

For those worried about security, Christofis says there are some basic standards that device manufacturers should comply with to protect consumers, such as ensuring all data sent to the cloud is encrypted. Every device should also have a unique randomly-generated default administration password, printed on the back of the device, and not guessable from the serial number, as well as the ability to securely update the firmware so if security

problems are discovered they can be fixed. “We need to be pushing the vendors of both devices and systems to make them secure and really strongly respect people’s privacy,” he says.

Ho of Intertek thinks consumers should also be aware of cybersecurity issues when deploying the IoT in their home. “They should be aware of whether devices will collect their personal data. They should fully understand the reasons behind why and how data is being collected and processed, as well as how to avoid being hacked and having their personal data leaked and accessed in an unauthorized manner,” he says.

Gan points out that consumers also need to think carefully about what authentication methods they use. “Biometric authentication, such as facial recognition or finger prints, is the most secure, but the downside is that if your biometric data is compromised, you can never change it,” he says. “A password is less secure, but if you lose it, you can change it.”

In the meantime, smart homes services are expected to continue to develop. In the future, Ho expects smart home ecosystems to become connected with other ecosystems, such as healthcare, public utilities and vehicles. Ng of HKT thinks facial recognition and AI will increasingly be incorporated into smart home products. “Currently, a system can respond to users with a pre-programmed setting. In the future, we expect the system to learn and process the users’ demographic data and other behaviour to customize a scenario for each user’s lifestyle,” he predicts. “The interaction between system and user will be closer.”

“We need to be pushing the vendors of both devices and systems to make them secure and really strongly respect people’s privacy.”



SECOND OPINIONS: WHAT ARE THE EMERGING RISKS FACING PROFESSIONALS IN THE FUTURE?

“Complaints submitted to the Institute often arise from the misconception that auditors must verify every transaction in the accounting records and misunderstandings about the audit process.”



LINDA BIEK
DIRECTOR OF COMPLIANCE
HONG KONG INSTITUTE OF CPAs

The Institute's Compliance Department investigates complaints against its members. Over the past two years, complaints have been trending in the following areas:

Audits of owners' corporations of buildings – Property owners, concerned about their real estate investments, become frustrated when they lose confidence that the corporation's money is not being spent prudently. Complaints submitted to the Institute often arise from the misconception that auditors must verify every transaction in the accounting records and misunderstandings about the audit process. Although most of these complaints are dismissed, some investigations have revealed audit deficiencies which led to regulatory actions. To minimize risks associated with these engagements, practising members are encouraged to work with management companies to resolve concerns. They should reference *A Guide on Building Management Ordinance (Cap. 344)* published by Home Affairs Department and the Audit of Financial Statements of Owners' Corporations of Buildings section on the Institute's website.

Technical proficiency of senior accounting professionals within listed companies – Given public interest in listed companies, the Compliance Department investigates members who served as directors or senior accounting officials (i.e. as CFO) of companies for which deficiencies have been alleged. This exercise has revealed a trend of senior accounting officials unduly relying on the auditor, and – in some cases – abdicating their responsibilities for a company's financial reporting to the auditor. The Code of Ethics for Professional Accountants requires all professional accountants to maintain professional knowledge and skill to ensure that an employer receives competent services in accordance with applicable technical and professional standards. Failure to do so may result in regulatory actions.

Compliance with the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO) – In March 2018, the scope of the AMLO was extended to cover “designated non-financial businesses and professions” – including accountants. The Institute has taken a two-prong approach to ensure members comply with the AMLO. The practice review process now includes AMLO monitoring reviews. The Compliance Department investigates complaints against members who fail to perform procedures warranted under the AMLO. Initial AMLO-related investigations reveal a lack of understanding of members' requirements concerning risk assessment and customer due diligence. Members are encouraged to familiarize themselves with the *Anti-money Laundering Procedures Manual for Accountants*.



ADRIAN LAI
BARRISTER
DES VOEUX CHAMBERS

Should the auditors, who have failed to detect the fraud perpetrated on the insolvent company, be held responsible for the losses in substance suffered by the company's creditors? For many years, it has been considered that auditors, in performing statutory audits, only owe duties to the company's shareholders as a collective body (*Caparo v. Dickman* (1990)) and should not be held responsible for creditors' losses.

However, it is a well-established principle that directors in an insolvent or a nearly insolvent company need to prefer the interests of creditors to those of shareholders if they are in conflict. Applying this to audit engagements, the auditors' duty may also extend to protecting creditors' interests when the company is insolvent or nearly insolvent provided these claims remain valid. The common law courts have also on a number of occasions highlighted the importance of protecting creditors' interest in insolvent companies.

In *Stone & Rolls v. Moore Stephens* (2009), Lord Mance in his powerful dissenting judgment held that the auditors should not be allowed to rely on the illegality defence when they had failed to detect the company's fraud, which caused the loss to the creditors. Subsequent cases suggest that this view has been gaining ground. In *Bilta (No 2) (CA)* (2016), Patten LJ cast doubt on *Stone & Rolls* and considered that its reasoning takes away the legal protection available to creditors.

In *Hong Kong, in Days Impex* (2017), Deputy Judge Lee refused to strike out the claim against auditors for reasons including that the proposition that auditors owed duties to creditors even when the company was insolvent or nearly insolvent was at least arguable.

Should an auditor take creditors' interests into account in planning the audit? It may well be prudent. A company engaged in managerial fraud tends to appear to be financially sound and its true position (usually hopelessly insolvent) is revealed only after the company collapses.

“The fact that the auditor concerned has been defrauded by the management in the first place is not an excuse for their negligence in detecting fraud.”

The fact that the auditor concerned has been defrauded by the management in the first place is not an excuse for their negligence in detecting fraud. As stated in a recent legal case, fraud is the “very thing” from which the auditor has a duty to protect the company.



STEVE BRUCE
LINKEDIN COACH | SME MARKETING CONSULTANT
SB CONSULTING

The digital world is significantly smaller than the physical world and information can be transmitted over thousands of kilometres within a matter of seconds. Many professionals embrace this brave new world – but others seem reluctant to take their first steps forward. Failure to build and maintain an online presence is no longer an option, as late adopters may be labelled as outdated, and find themselves unable to enjoy the same professional opportunities they experienced in the pre-digitally connected world.

Fortunately, there are several websites that make it easy to build an online profile such as LinkedIn, Facebook and Twitter. Of those, LinkedIn is “the” site for professional networking. This platform offers you tremendous power to share your skill set or the professional services that you offer with a wide audience. You can also expect that most potential clients will google you and check your LinkedIn profile before engaging you.

“Failure to build and maintain an online presence is no longer an option, as late adopters may be labelled as outdated.”

During a recent workshop, a senior executive volunteered that he would not take meetings with suppliers who do not have an “All-Star” or 100 percent complete LinkedIn profile. He added that “if the person who wants to meet with me doesn't even care enough about their own personal brand to be active on the site, then it is unlikely they are a good partner for us.”

Another survey indicates that 50 percent of respondents will avoid doing business with suppliers without a fully completed LinkedIn profile.

More than 90 percent of recruiters use LinkedIn. A strong profile is therefore critical if you are job-hunting. Otherwise, you may be missing out on an excellent opportunity because you are digitally invisible to the company.

Being digitally-visible on LinkedIn requires you to follow seven easy steps.

1. Add your industry and location
2. Add an up-to-date current position with a description
3. Add at least two past positions
4. Add your education
5. Add at least three skills (you can add up to 50 – these are excellent for showing up in searches)
6. Add a professionally shot profile photo
7. Have at least 50 Connections

FORGING CLOSER TIES

As an international finance centre, Hong Kong has strong bilateral ties with countries across the globe. With more than 50 Canadian companies basing their regional headquarters in the city, Canadian Chamber of Commerce Chairman Todd Handcock coordinates the interests of a diverse membership. He tells *A Plus* about his role in developing a long-standing international relationship

Photography by Calvin Sit



Like many countries, Canada – with its status as the United States’ most important trading partner and its extensive import-export relationship with China – has been caught in the crosshairs of the continuing disputes between Beijing and Washington.

For Todd Handcock, Chairman of the Canadian Chamber of Commerce in Hong Kong, optimism is the order of the day despite the potential for fallout. “I think members are positive,” he says. “We’re continuing to see a lot of investment in both directions, and more Canadian companies are coming into Hong Kong and the Asia-Pacific region.”

Ultimately, he believes, the principles of free trade will triumph. “It’s an interesting, dynamic world right now with different conversations around free trade agreements,” says Handcock. “As a chamber we’re proponents of free trade. We think it’s good for the global economy.”

He cites the Canadian government as one of the most outspoken proponents and promoters of free trade. “We have recently signed the U.S.-Canada-Mexico free trade agreement, we have the agreement on trade with the European Union, and we’re a founding member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.”

Handcock acknowledges that talks on trade are often not easy to conclude. “The challenge is always that free trade agreements take a lot of effort. They take a lot of time. All parties are looking for the best things for their constituents, and it takes a lot of open and honest dialogue.”

The upside is that such trading pacts open the world to Hong Kong companies. “Through those agreements it actually means that Hong Kong companies can invest in Canada,” he points out, citing as an example the major Hong Kong-based property developer Peterson Group, with its extensive holdings in Vancouver. “Those companies can access those free trade agreements, which means access to about 1.5 billion consumers around the world and two-thirds of the global gross domestic product.”

That’s also good news for Canadian companies in Hong Kong. “Most of our 50-plus Canadian company members have their regional headquarters in Hong Kong and we don’t see that changing. Hong Kong is continuing to be an important place for a launchpad to China and Asia-Pacific. It is the easiest place and the best place for Canadian companies to look at the entire region,” says Handcock, citing Hong Kong’s geographic position, role as a gateway to China and

the rest of the region, ease of doing business, and rule of law as reasons.

In 2017, Hong Kong was Canada’s 13th-largest export market with merchandise imports from Canada amounting to C\$2 billion, according to Trade and Industry Department data. Canada was the 25th-largest market for Hong Kong, according to Canadian government data. As Handcock notes: “There’s deepness there.”

Go, Canada

Hong Kong and Canada have a long relationship. “On a personal level, we had Hong Kong immigrants coming to Canada back in the 1770s,” says Handcock, whose other job is President, Asia Pacific, at Collinson, a British marketing company specializing in corporate loyalty and benefits.

“And then on the business front, you had Canadian companies such as Sun Life investing in Hong Kong over 150 years ago,” he adds. “Then Manulife, Canadian Imperial Bank of Commerce, Bank of Montreal, Scotiabank, TD Bank and Royal Bank of Canada all have very long histories within Hong Kong.”

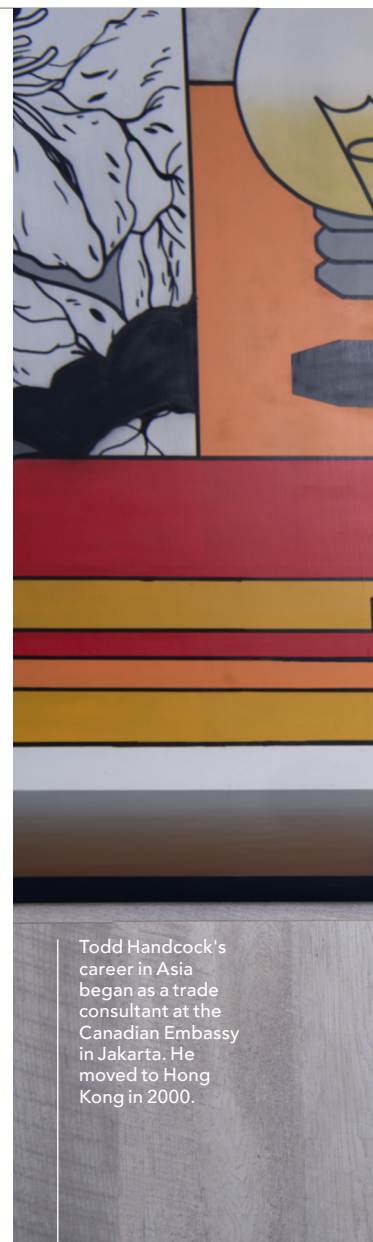
That heavy focus on banking has evolved over the years, however. “If you take a look at the majority of our members now, they are services-related: insurance space, non-bank financial services, legal firms, new economy and technology companies and education and training firms,” says Handcock.

The members’ geographic focus has also changed in recent years, Handcock points out, due to projects such as China’s near-global US\$900 billion Belt and Road initiative and the Greater Bay Area (GBA) development comprising Hong Kong, Macau and China’s southern Guangdong province.

“With Belt and Road, I think there’s opportunity in two ways,” he says. “The first is with Canada, there’s a long history of infrastructure development and infrastructure technology because of the nature of our geographic spread – such as railways, ports, airports, logistics, and basic things like telecommunications.”

Secondly, Handcock adds, there is a significant opportunity to take advantage of stronger consultative mechanisms, and an increasing emphasis on accountability and sustainable development. “Canadian companies are particularly strong in these areas. So our chamber members can not only benefit from Belt and Road initiative, but can help make it more robust and healthy for all concerned.”

The chamber also sees the GBA as a game changer. “In December 2018, we set up a tripartite



Todd Handcock's career in Asia began as a trade consultant at the Canadian Embassy in Jakarta. He moved to Hong Kong in 2000.

“Most of our 50-plus Canadian company members have their regional headquarters in Hong Kong and we don’t see that changing.”



memorandum of understanding with the Canadian Chamber of Commerce in Macau and the newly formed Chamber of Commerce Pearl River Delta,” he says. “The three chambers are now actively exchanging ideas, introductions, and information as well as participating in joint workshops such as the Transpacific Entrepreneurial Conference held each December. This engagement is creating new bonds both within the GBA but also back to Canada and deeper into China.”

Canadian companies rarely enter the region without a GBA strategy

nowadays, Handcock insists. “Whether in professional services, education or tech, they are great about basic research and they have the option to prototype in places like Shenzhen.”

Handcock praises Hong Kong’s move into innovation and higher technology as a boon for global companies. “I think the great thing for Hong Kong is it’s becoming much more of a new world economy. We’ve got strong partnerships with both Hong Kong Science Park as well as Cyberport that extend into many of our innovation hubs in Canada – Montreal, Edmonton,

Toronto, Vancouver and Calgary,” he says. “We are seeing increased exchange of technology ideas and innovation in areas such as artificial intelligence (AI), cleantech, and fintech. As the roots of these bonds get deeper, we will see even greater levels of collaborations.”

Forging relationships

Handcock sees his role as Chairman as a facilitator aligned to the mission of the Canadian chamber. “That is to build ever stronger bridges between not just Canada and Hong Kong, but also Canada and the rest of the region,” he says.

“From a leadership perspective it is, like many chambers, going through a period where it needs to continue to fight for relevance,” Hancock points out, citing the prevalence of new media and channels such as LinkedIn. “That means that the chambers of today need to be shifting in how they stay relevant: the depth and breadth of the value, the engagement that they can offer to their members.”

Like all chambers, the Canadian body has a wide membership, with members often having competing goals, such as importers and exporters. “I think diversity is what makes us strong as a chamber,” says Hancock. “We have interest committees across different sectors including financial services, education and technology. But we’re also seeing those interest committees coming together so when you talk about AI, it is no longer a technology thing, it’s how do you apply AI to the financial services sector or the legal sector. It’s a cross-fertilization.”

The chamber also develops strong ties with other Canadian institutions in the city. “We have a strong relationship with the Canadian Consul General here in Hong Kong, Jeff Nankivell, who has been a fantastic partner,” says Hancock. “We do a number of joint events and whenever there’s a Canadian minister out we often co-host the ministerial lunch or dinner or cocktail reception.”

It’s not just federal government links – the chamber also reaches out to individual Canadian provinces. “Quebec has just opened their office in Shenzhen and they’re also a member of our chamber, while British Columbia and Alberta have trade offices here. “It’s great to see that both provinces have invested in the region,” say Hancock. “It is a close working relationship. They utilize their sectoral expertise and both provinces work with us. Ron Hoffmann is Alberta’s Senior

Representative for the Asia Pacific Basin and is on our executive committee.” says Hancock.

“Alberta has been very aggressive towards innovation technology of late and that’s two way, bringing technology from the likes of the University of Alberta, which is ranked as one of the top five AI hubs in the world.”

That means new business for Hong Kong, Hancock adds. “I think there is going to be significant opportunity for Hong Kong as it shifts towards more of that knowledge economy. It is sitting at the door of places like Shenzhen, and you still have very strong legal governmental and a rule of law structure here.”

The Canadian way

Soft power is essential, and Hancock sees the chamber as a representative for the Canadian way of life. “I don’t think a month goes by where there isn’t something social or corporate going on in the Canadian business community,” he says, citing Canada Day – which is shared with Hong Kong on 1 July – as a cause for celebration and an annual Canadian Ball attended by 400 to 500 people.

A highlight of 2019 was the Toronto Raptors’ first U.S. National Basketball Association championship. “We had a couple of hundred Canadians celebrating raucously in Lan Kwai Fong,” the entertainment district of Central which, as Hancock points out, was popularized by a prominent Canadian-born Hong Kong businessman, Allan Zeman.

The Hong Kong Rugby Sevens Championship, held each March, is also a major event. “Every year, just before the Sevens, we hold our fundraising luncheon for the Canadian team,” says Hancock. “In fact, Hong Kong is the largest fundraiser for the Canadian Rugby Sevens team anywhere in the world.”

Holding essentially two full-time jobs, Hancock acknowledges that achieving work-life balance is a challenge. “I have to admit that it’s a lot more work than I expected or signed up for and that’s after having been on the chamber’s executive committee for a number of years,” he says.

“I probably now use the term work-life integration rather than work-life balance,” he adds. Away from his desks, Hancock coaches rugby. “I have been active in the Hong Kong rugby community, sponsoring a football club and coaching my children as they grew up here.”

One way that he tries to integrate work and leisure is to synchronize business trips with his wife, Jay. “On a professional level, my wife travels a lot for work and we’re often coordinating our trips so we might end up in Bangkok or in Sydney together,” he says.

An international life can complicate family relationships in other ways. “I’ve got three sons who all grew up here and they’re all now in Canada, and I think it is really important that when you’re living overseas to take time to go and spend time back there with them. That’s precious.”

Hancock moved to Indonesia in 1993 and joined the Canadian Embassy in Jakarta as a trade consultant before he went on to open Toronto-based beverage company Cott Corporation’s operations in Indonesia and expanded it across the region as its APAC business development director and Indonesia managing director.

He has no regrets. “Ever since I left Canada 25 years ago and moved to Indonesia, I’ve always been very active in the Canadian business community,” he says. “I think we’ve got a great culture and I think it’s something that we want the world to know about. I wear my Maple Leaf very close to my heart.”



According to Todd Hancock, early Canton migrants to Canada built a fort, dockyard, and sailing ship in Nootka Sound on Vancouver Island in the 1770s. The next wave of migrants happened in the 1850s during the Gold Rush.



“The chambers of today need to be shifting in how they stay relevant: the depth and breadth of the value, the engagement that they can offer to their members.”



Handcock is currently President, Asia Pacific, at Collinson, a British marketing company specializing in corporate loyalty and benefits.



Hong Kong Institute of
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2019 PAIB CONFERENCE

Digital & Virtual Banking: tomorrow's banking today?



Date: Saturday, 21 September 2019

Time: 8:45 a.m. – 12:30 p.m.

Venue: HKICPA Auditorium, 27/F Wu Chung House
213 Queen's Road East, Wan Chai, Hong Kong



(For enrolment)

With the Best Corporate Governance Awards 2019 now open for entry, this article from the Hong Kong Institute of CPAs discusses how improving corporate governance requires continual effort to internalize strong governance behaviours



The best corporate governance goes hand in hand with a good corporate culture

For the boards of listed companies, protecting shareholder value is a key responsibility. Good corporate governance can be a key driver in value-creation while also minimizing the risks an organization faces. But demonstrating the best corporate governance is a continual process of improvement rather than a one-time exercise. Practices evolve and organizations must ensure they understand and can meet new standards and requirements.

Continuing developments

The Institute has long campaigned for improving corporate governance in Hong Kong. Last year it released a report on the topic, authored by Syren Johnstone and Say H Goo of Hong Kong University, investigating corporate governance in the United Kingdom, United States, Mainland China and Singapore and whether Hong Kong could leverage on successful developments elsewhere. The report made 28 recommendations for improving corporate governance and culture. Since the publication of the report, the Institute has referred it to the Securities and Futures Commission and Hong Kong Exchanges and Clearing Limited (the stock exchange) and has invited the regulators to attend events discussing ways to strengthen corporate governance in Hong Kong.

The stock exchange implemented new corporate governance reporting requirements in the listing rules and the Corporate Governance Code at the start of 2019. These changes improved the transparency and accountability of board nomination, selection and appointment processes, especially in relation to independent directors.

All listed companies must ensure they are meeting these new requirements, but those which aim to demonstrate the best corporate governance must be ahead of the curve. “The best performers in most categories were still able to achieve high scores on the strength of their voluntary additional disclosures and practices. These companies were also likely to be early adopters of any changes in requirements, as they see the benefits of a good corporate governance regime to the long-term success and sustainability of the company,” noted *The Judge’s Report for the Best Corporate Governance Awards 2018*. Early adoption allows organizations to try out new ways of operating their business and reporting their corporate governance, and be better-prepared for regulatory changes.

Positive external factors

Some organizations may not see good corporate governance as a direct benefit to them. But, as part of the community, organizations play an important role in employing citizens and providing them with products and services. The proof of good governance shows that an organization is taking its responsibility to all its stakeholders seriously. This can have positive benefits, as the introduction to *The U.K. Corporate Governance Code* issued in July 2018 by the United Kingdom’s Financial Reporting Council notes: “Successful

and sustainable businesses underpin our economy and society by providing employment and creating prosperity. To succeed in the long-term, directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders.” In this regard, good corporate governance and sustainability are increasingly important to investors, especially institutional investors. This is further evidenced by the stock exchange’s recent consultation proposals, which focused on upgrading the Environmental, Social and Governance (ESG) Reporting Guide under the listing rules.

Geert Peeters, Executive Director and Chief Financial Officer of CLP Holdings, a repeat winner at the Institute’s Best Corporate Governance Awards (BCGAs), said something similar in an interview with *A Plus* in 2017. “Good corporate governance enhances the credibility and reputation of the company, as well as promoting and safeguarding the interests of our stakeholders.” For CLP, “doing the right thing” is at the heart of operations and a key part of their corporate ethos – from the top of the organization down.

Demonstrating good corporate governance is not about box-ticking, but about ongoing monitoring and reviewing of practices to ensure they are helping the company meet its goals. “We see it as a never-ending commitment to constantly review and assess our policies to respond to the fast-changing environment, regulations and needs of our diversified businesses,” Kevin Hui, Director and Group Financial Controller, The Wharf (Holdings) Ltd, told *A Plus* in 2018. The Wharf were first time BCGAs winners in 2018. To assist, the company organizes regular training sessions for staff on corporate governance policies, with the expectation that over time the stronger awareness of the rules and codes will improve operations, reduce errors and lower the risks the company faces.

Demonstrate your corporate governance excellence

The Institute is this year celebrating the 20th year of its seminal BCGAs, which are open for entry until 12 August. Awards are available across a range of categories:

- The main awards are open to listed companies and public sector and not-for-profit organizations.
- Commendations for Website Corporate Governance Information are aimed at encouraging organizations to improve information disclosure about their governance policies and practices through their websites.
- Self-nomination Awards for smaller organizations and non-profits to encourage improvements in these important sectors.
- The Sustainability and Social Responsibility Reporting Awards focus on ESG reporting, which has become a key aspect of good organizational conduct and reporting.

Details about the entry process can be found on the Institute’s website. To demonstrate your organization’s commitment to high standards of governance, why not enter now?

FASHIONING GLOBAL STANDARDS

Hong Kong's policy of convergence with International Financial Reporting Standards brings with it a few misconceptions. **Nicky Burridge** finds out more about the significant role the Institute plays in helping to shape financial reporting standards and preparing stakeholders for their implementation

Illustrations by Gianfranco Bonadies

International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* introduces significant changes to accounting for the insurance industry. Despite the standard being years in the making, due to the significance of the changes, insurers in Hong Kong are concerned about being able to meet the implementation deadline, and the technical aspects of the new standard with which they had particular concerns.

Stakeholders in the sector relayed these worries to the Hong Kong Institute of CPAs' Financial Reporting Standards Committee (FRSC), which in turn raised them with standard setter the International Accounting Standards Board (IASB).

Two of the issues that caused concern have since been addressed in the IASB's proposed amendments, which also propose to defer the implementation date for the standard by 12 months. Providing further support to insurers, the Institute established a Hong Kong Insurance Implementation Support Group to call for and discuss





FINANCIAL REPORTING

Standard-setting



stakeholder questions regarding implementation of the standard, and identify implementation issues which need to be brought to the IASB's attention.

This is one of the many examples of the work the Institute does behind the scenes in its role as a standard-setter to monitor and influence international standards.

Christina Ng, the Institute's Director, Standard Setting, says the work that goes into standard-setting is not always well understood. "The most common misconception is that we are just copying the standard and there is really nothing we need to do. People just don't know what we do behind the scenes," she says.

Shelley So, Partner, Accounting Consulting Services at PwC, and a former chair of the FRSC, agrees: "The Institute's involvement in the standard-setting process is often seen as just being a rubber stamp, but this is

not the case."

Ernest Lee, Technical Partner at Deloitte China and current Chair of the FRSC, explains that the committee gets involved in standards from the very beginning – even before the standard has been issued by the IASB – it also continues to monitor them through both immediate post-implementation reviews and reviews years after they become effective. He adds that throughout the process, it provides feedback to the IASB about how the standard will impact Hong Kong, and makes recommendations on how potential issues could be overcome.

"The work of FRSC is essential because it strives to develop and issue financial reporting standards, interpretations and guidance that are both accepted globally and suited locally for reporting entities in Hong Kong with different reporting

requirements, needs and sizes," says Gary Poon, the FRSC's small- and medium-sized practitioner (SMP) and small- and medium-sized enterprise (SME) representative.

Active communication

For Ng, one of the most important aspects of standard-setting work is proactively communicating with stakeholders in Hong Kong, whether these are Institute members, companies who will be impacted by the standard or investors, or other parties involved in the financial reporting process such as regulators and auditors.

Another key part of proactive communication is the constant dialogue with the IASB board and staff. "Before joining the Institute, I worked for the IASB. At the IASB, I found many standard setters only got in touch with us during a public consultation period. However, I would

"We do several rounds of consultation, but often it is only when we have issued the standard that concerns get raised."

frequently hear my colleagues on various projects saying ‘I have a call with the Hong Kong Standard Setter.’ The Institute staff would often contact us and speak with different project teams at various stages of projects, not only during a formal consultation,” remembers Michelle Fisher, Deputy Director, Standard Setting at the Institute. Ng says: “We seemed to be on the phone with them all the time, and we felt sure they were sick of us by now.”

The Institute has set up a number of channels to obtain feedback on the IASB’s proposed new and revised standards, ranging from sending out letters to corporations, investors, regulators and trade associations such as the Chamber of Hong Kong Listed Companies, to using social media, and hosting roundtable events. It also details its work on new standards on its website. The Institute’s consultation periods for new standards typically last about 90 days. After the consultation ends, the Institute will study these comments to shape its own views on the proposals before submitting its comments to the IASB.

The Institute also has a number of project advisory panels comprised of a range of stakeholders with expertise in a particular area of accounting which advise the FRSC on issues under their remit.

But despite all these efforts, and the fact that a standard usually takes two or more years to be finalized, Ng says the Institute typically receives very little feedback from stakeholders, and when it does, it often comes late in the process. “If we hear little during the public consultation, we assume the standard is fine and there aren’t any issues. We do several rounds of consultation, but often it is only when we have issued the standard that concerns get raised.”

Timeliness is key to finding workable solutions, she says. “People need to tell us about the issues early on and not wait until they have become a problem because by then it is very difficult to help in a meaningful way. Communication is really important,” Ng says.

“The FRSC also pays particularly close attention to the views of SMPs and enterprises during the consultation process and conducts roundtable meetings on relevant topics especially for them to voice their concerns and views,” Poon says, whose role on the committee is also to get feedback from both SMPs and SMEs and help identify any issues which may affect them.

Early involvement

The Institute ensures it is involved in the standard-setting process from the very beginning.

The IASB has monthly meetings in which it discusses its current standard-setting projects, and the FRSC, supported by Ng and her team, monitor these meetings closely to understand the direction in which a standard is developing. “We discuss these meetings internally and if we are concerned about the direction they are taking and how it will impact Hong Kong, we write to them and communicate our concerns,” Ng says.

An example of this is when the Institute raised concerns with the IASB over the definition of a business being used in IFRS 3 *Business Combinations*. This standard establishes principles for how an acquirer of a business recognizes the assets acquired and liabilities assumed at their acquisition-date fair values, and discloses information that enables users to evaluate the nature and financial effects of the acquisition. “We were concerned about a very rule-based position they were taking

and the unintended consequences that would arise from overly simplifying the determination of what is a ‘business,’” Ng says. “We believe in having standards that are principles-based – in our experience, structuring transactions to avoid an unfavourable reporting outcome was common under rules-based standards,” Ng says.

Through back and forth dialogue between the IASB and the Institute, including the chance to comment on the drafting of the amendments, eventually the standard was tweaked to address its concerns. “The communication between us, the IASB and our stakeholders is quite powerful. The IASB gets the chance to see how we would apply their position, and they can tell us if it is not what they were intending,” Ng says.

The Institute also runs seminars and workshops to help educate and prepare members for new standards, as well as issuing articles on particular areas of the standard where there are difficulties in understanding. There is also a technical enquiry process, through which all stakeholders can submit questions about standards.

Its educational efforts also extend to non-practitioners, such as investors and regulators, to help them understand the impact new standards will have on companies’ financial statements. The IASB and the Institute collaborate heavily on investor and regulator education.

Proactive research

As well as closely following the development of standards, the Institute also proactively undertakes research into issues that it would like to see tackled, and provides recommendations to the IASB. A current project is investigating developing accounting requirements for business combinations under common

control, referring to mergers and acquisitions between entities or businesses that are ultimately controlled by the same party. The Institute is leading a working group on the topic in the region and has worked with national standard-setters in Europe to analyse how such transactions are accounted for in their region – and whether there are cultural or legal differences that could lead to different ways of accounting for them.

Lee says: “We are leading by questioning why such transactions are any different from a merger or acquisition with independent parties. We’re challenging the conceptual merits of accounting for them differently and the team shares their developments with IASB staff as their thinking progresses. In Hong Kong, we have held outreach meetings with investors, preparers, practitioners and regulators to seek their views on such transactions.” The committee will report all of these findings to the IASB to help them develop a global standard.

Ng says: “We are pushing the IASB hard to make a standard for these types of transactions.” She adds that in the past couple of years, the Institute has presented at a few times at global meetings to raise conceptual arguments and issues it would like to be considered.

Ng and her team are also currently working with the staff at the Japanese standard setter, the Accounting Standards Board of Japan, to see if there is a better way to account for goodwill, as it is felt by many practitioners and investors that the current impairment-only approach is not working in practice. So says: “I think the amortization of goodwill is always a hot topic in Hong Kong and China.

“In the past, when the IASB chose to stop the amortization

of goodwill, we were not very comfortable with the decision, partly because of the way in which the valuation process is done here. The significant value of intangible assets may be embedded in goodwill rather than recognized separately. As a result, you can suddenly have large impairments because the goodwill has not been amortized over time, and people do not like this. It is a big concern.”

Fisher adds that the IASB’s project is still in its research phase and it may be several years before a final standard is issued, “it is at this stage that people can influence the project the most, when the IASB’s proposals are still in the early stages of being developed.”

Post-implementation assistance

Once a standard is in place, the Institute conducts its own reviews on the implementation of the standard. While the IASB typically carries out a review of standards two to five years after they have first been implemented, the Institute will start the review process much earlier, and in turn advises the IASB of any significant implementation issues.

Lee says: “After the standard is issued, we continue to monitor its implementation to see if our stakeholders in Hong Kong have any practical difficulties, if there were unintended effects, and where necessary we will develop our own materials to aid understanding of the standards.”

Ng agrees: “Reviews are a very central part of standard-setting. It is not a ‘set and forget’ thing.”

One of the areas in which the FRSC is currently very active is monitoring the impact of IFRS 15 *Revenue from Contracts with Customers*, which became effective

in January 2018, and is having a big impact on several industries where it has changed the point of revenue recognition.

Ng explains: “A lot more robust requirements and guidance have been added to help entities account for revenue in the way that was intended. We noted construction or services industries now may recognize revenue later or earlier under IFRS 15, depending on the jurisdiction’s legal environment and enforceability of a company’s rights to payment, among other things. We thought this is interesting and requires companies to really understand their rights and obligations across the jurisdictions they operate in. Because of this, we’re undertaking a study of how jurisdictions in the region are applying IFRS 15 to the real estate sector, and plan to share the findings as part of the education on the standard.”

So points out that the Institute was one of the first territories globally to discuss the matter with the IASB, particularly determining the points of revenue recognition. Since then, other jurisdictions have done so.

Ng’s team is leading a revenue technical working group in the region as part of the Asian-Oceanian Standard-Setters Group (AOSSG) which facilitates education and discussions on practice developments and emerging issues in the region.

Fisher says the revenue standard is a good example of why education and communication with stakeholders early on is so important. “On the face of it, many companies did not expect significant accounting changes when the new revenue standard was issued. However, when they started to apply the detail in the standard

“Reviews are a very central part of standard-setting. It is not a ‘set and forget’ thing.”

near its effective date, issues started to arise,” she says. “We have been discussing these issues with the FRSC and our Revenue Advisory Panel and we have developed a number of articles and frequently asked questions to help industries better understand and implement the standard,” she says.

So agrees: “Many companies only started to look at the standard when they had to prepare their reports, so the issues only came to our attention when it was already in force.

“The Institute was able to give them more guidance, but it could not eliminate the impact altogether. People need to get in touch at an earlier stage and not leave it so late.”

A trusted voice

The Institute is active in international accounting groups, such as the IASB’s Accounting Standards Advisory Forum and the AOSSG, which is made up of 26 national standard-setters from around the region. Fisher says it is particularly important to discuss new standards with other regional standard-setters, as local bodies may have encountered similar issues. “It is a good group to be part of because we can bounce ideas off each other. If the IASB is discussing a proposal or deliberating views, we can see what other standard-setters are concerned about.”

Ng points out that different cultures and legal frameworks can also impact how different jurisdictions apply the standards.

So thinks the work the Institute does in this area is very important to ensure the region’s voice is heard internationally. “Traditionally, there have been more western voices than Asian voices, but if you look at the complexity of the issues, we have a lot of unique

situations in the region and the way we do business is quite different to the way business is done in the west. When a standard is set, it is important these issues are considered,” she says.

Lee stresses that it is important members get involved in the development of standards as early as possible – providing feedback especially during consultation stages. He adds that in order to do this they must keep abreast of developments so that they can identify any major issues.

Poon also encourages members

to make the best use of the resources the Institute makes available to its members, as well as attending its seminars and workshops.

Lee says: “I believe standards will keep evolving and we will never have a so-called perfect standard for all situations because of the increasing complexity of transactions in Hong Kong and elsewhere in the world. What is important, is for everyone to nurture a culture of improvement and with that mindset we should be able to develop better standards for Hong Kong.”



LANDING THE JOB

Managing the finances of one of the world's busiest airports is no easy task. William Lo, the Airport Authority's Executive Director of Finance, tells **Kate Whitehead** about the major projects he is involved in and how his skills as a CPA help secure the city's superior connectivity

Photography by Leslie Montgomery





William Lo, Executive Director of Finance at Airport Authority Hong Kong, never imagined he'd be sitting in the Legislative Council answering the questions of legislators, and a sometimes pretty rowdy public. But it's all part and parcel of being a senior executive of a public organization.

"The lawmakers are OK – there are rules and protocols – but when it comes to public hearings, everyone can go in and get three or four minutes – and some people scream at you, call you names," says Lo, a member of the Hong Kong Institute of CPAs. "There were people who did not agree with constructing the Three-runway System and they tried to object to the project by criticizing that the financing plan for Three-runway System was not prudent and robust."

Although the LegCo sessions can be challenging – and the public hearings even more so – he relishes the chance to serve the community, an opportunity he never got during his more than two decades in the private sector.

Established in 1995, the Airport Authority is a statutory body wholly-owned by the Hong Kong government, and is responsible for the operation and development of Hong Kong International Airport. "Working for the Airport Authority, you've got a special mission – you serve the people, you serve the world. The airport is the gateway for people arriving in Hong Kong. We are helping business to grow, supporting tourism and banking. Sometimes it's not an easy job. There are many challenges and difficulties, but overall it is very rewarding," says Lo.

Mega airport

The airport industry is an infrastructure and capital-heavy business which calls for a long-term vision. After almost 10 years in

the job, he is finally getting to see some of the mega-projects come to fruition. When he joined the Airport Authority in 2010, he helped put the finishing touches to the Master Plan 2030, a 20-year master plan that laid out the need for a Three-runway System. This would take capacity up to a maximum of 620,000 flight movements and over 100 million passengers a year, from 430,000 flight movements and 75 million passengers in 2018, which could maintain Hong Kong's position as a network hub possibly beyond 2030. "Infrastructure is a special kind of animal that needs long-term planning and massive monetary investment, so planning years ahead is just about right," says Lo.

"Working for the Airport Authority, you've got a special mission – you serve the people, you serve the world. The airport is the gateway for people arriving in Hong Kong."

The Three-runway System and its HK\$141.5 billion construction cost has been a focus of his work, but the role is much wider. He oversees four departments – the financial, accounting, treasury, and procurement and legal team. "As chief financial officer, I have full financial control, manage financial planning, corporate governance, am a member of the executive team and the senior management team and make executive planning and policy procedures for the company. It's a very fulfilling job," says Lo.

He has also been involved in mergers and acquisitions. In September 2018 he helped the Airport Authority acquire the rights and equity interest held by

IEC Investments Limited, and the ownership of AsiaWorld-Expo Management Limited, which manages and operates the convention and exhibition facilities, at a total price of HK\$900 million.

The job entails working on big projects which usually carry a hefty price tag – and the third runway is the biggest. Getting the HK\$141.5 billion funding for the project – of which about 40 percent will be used for land formation – required a savvy financial plan. "In the past, we paid a dividend to the government, but we stopped paying that about four years ago, and because of that we have accumulated quite a good cash reserve which accounts for about one third [of the total cost]," says Lo.

In 2016, the Airport Authority appointed HSBC as financial advisor for the study of the detailed funding plan for the Three-runway System project. "The approach and key funding objectives recommended by HSBC entail raising debt on cost-effective terms that are consistent with the Airport Authority's investment plans and funding needs, while allowing flexibility in the timing of market approach. Airport Authority carefully devised the funding plan with reference to the study and market trends. As a seasoned CFO, I helped on the formulation and execution of the funding plan," Lo explains.

An airport construction fee currently levied on all departure passengers – HK\$90 to HK\$180 per person, depending on the duration of the flight and the class category – brings in HK\$3-4 billion a year or 18 percent of the total cost over the eight-year construction period. For the remaining 49 percent, Lo and his team decided to go into the capital markets to raise the HK\$69 billion needed.

"In February, we did the first bonds in U.S. dollars which were very successful – it was seven times over-subscribed, which shows that



William Lo joined the Airport Authority in 2010. In addition to working on the airport's Three-runway System, he oversees the financial, accounting, treasury, and procurement and legal team.

“I was approached by a headhunter asking if I’d like to join the public sector for a change, so I said, ‘why not?’”



Lo graduated from the University of Warwick with a Master's in Business Administration.

investors have confidence in the airport and the Airport Authority,” says Lo.

The next project will be a Hong Kong dollar retail bond – for about HK\$5 billion – marketed at all Hong Kong citizens. With a short tender of just three years, Lo expects it to be hugely popular. “People will have a keen interest for it. We hope with that gesture, people will feel that they are part of the Three-runway System project,” says Lo.

The completion of the Three-runway System in 2024 will coincide with the realization of the Airport Authority’s long-term vision of

the airport as an “Airport City,” a metropolis that will draw not only passengers to the aviation hub, but the broader public. This is in line with similar projects around the world where the airport is an economic engine driving employment, gross domestic product and tourism.

“The idea is to make Hong Kong International Airport a destination in itself with citizens from Hong Kong and the Greater Bay Area coming to spend one or two days in SKYCITY. It will be a commercial project with entertainment, shopping, dining and personal services such as banking and a medical centre for people

coming in for medical tourism,” says Lo. He adds that the commissioning of the Hong Kong-Zhuhai-Macao (HKZM) Bridge boundary crossing facilities, the HKZM bridge, and the Tuen Mun tunnel will strengthen connectivity between the airport to the Greater Bay Area as travel time will be significantly shortened.

He also speaks fervently about the technological innovations that are set to revolutionize the airport experience, in particular, facial recognition. “Nowadays you still need to show your passport to get your boarding pass, at the restricted area, the immigration and again



when you get on the plane. But in the future, you will be able to walk all the way through the airport without stopping as your face will be recognized at every single point,” says Lo.

To him, it’s important that finance heads and CPAs keep up with and understand technological trends. “Technology does not only help improve productivity and enhance passengers experience, but also streamline business processes,” he says. “CFOs must have a grip on technology advancements to ensure that they and the organization they serve stay in competition.”

Diverse experience

He began his working life in 1983, working for one of the then Big Eight accounting firms. After four years, he joined the private sector as a commercial accountant and then worked as a commercial manager for German conglomerate Siemens before moving into locally-listed companies.

Lo feels his varied experience working in different companies and industries from property and hotels to gaming in Macau and fast-moving consumer goods came because he took on a challenge when it was presented.

“After almost 30 years in the private sector, I was approached by a headhunter asking if I’d like to join the public sector for a change, so I said, ‘why not?’ I realized it’s a totally different ball game – they are talking about process, about governance, and about doing things in a more rigid manner,” he says.

He believes his CPA qualification was instrumental in helping him move around industries. “CPA is not only a qualification but a brand – a trusted brand that employers, regulators and the general public would have confidence and expectation in. The full and comprehensive training at the Institute ensures a good all-round business executive.”

Lo’s father was also an accountant. As a six-year-old, he remembers watching his father working out his calculations using an abacus, and

when it came time to decide on a course of study, he knew it would be accounting. “I think it’s in my blood. Besides, it’s a skill that is transferable – one which you can carry anywhere you go,” says Lo, a Master of Business Administration graduate from the University of Warwick. “And all that experience is relevant.”

Lo hopes that young accountants will make the most of the career opportunities offered as a result of the Greater Bay Area and encourages them, using Steve Jobs’ quote, “stay hungry, stay foolish.”

“Sometimes we are not foolish enough or hungry enough, while our counterparts in the Chinese Mainland, tens of millions of graduates every single year, are very hungry and very foolish. We have to humble ourselves and see we have to compete,” says Lo.

Clever balancing act

Lo, 59, keeps healthy by running four kilometres every morning before work and playing a couple of hours of badminton on Saturdays. The exercise doesn’t just keep him physically fit, but also helps support a positive mindset. “You are bound to go through frustration and failure. Exercise lets you keep going and not get beaten down or depressed,” says Lo. On Sundays, he gives his body a rest, goes to church and spends time with family and friends.

He is committed to giving back. Over the years, he has mentored students from eight of Hong Kong’s 10 universities and also serves as a mentor through the Child Development Fund, an initiative that aims to help support less privileged children.

“Giving back to society is very important. It’s not just about working your butt off Monday to Friday and sleeping or partying at the weekend,” says Lo. “Work-life balance is about giving sufficient weight to all the pieces of the pie – work, family, friends, sport and giving back. It ensures your life is full, and when it’s full, you’ll have the energy to get through the difficult parts of life.”



From January to June this year, the Hong Kong International Airport handled 37.8 million passengers – a 2.5 percent increase – and 212,975 flight movements – a 0.8 percent increase – over the same period last year. Passenger traffic to and from Japan, Europe and Southeast Asia recorded the most significant increases.

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The Head of Digital at
custom media consultancy
New Narrative, explains how
to master digital marketing



How to master the essentials of B2B digital marketing

Digital marketing is growing in importance for all organizations – including business to business (B2B). Has your organization developed a successful B2B digital marketing strategy? If not, make sure it includes the following.

Strategies

Whatever your end goal, you need to start with a content marketing strategy. A good content strategy will set out how you intend to use various types of content and distribution channels to deliver your desired outcome. According to the Content Marketing Institute, 63 percent of B2B marketers don't have a documented content strategy. This is surprising. A documented strategy not only avoids duplication and wasted resources, but ensures that all stakeholders are aligned on objectives, responsibilities and accountability. Remember, different campaigns require different strategies, so start by identifying your goals.

With your content strategy in place, your next step should be an editorial calendar to help stay on track and map topics, formats and channels.

Having a digital marketing strategy will help you meet your objectives through online marketing techniques. The strategy should start with an analysis of your current capabilities and set out your goals.

Measurement and analytics

Once you have put your strategy in place, you'll need to know if it's working. The only guaranteed way to measure success is to look at the numbers. Good data will help you understand where you started, where you are, and where you're heading.

For content amplification campaigns, the primary objective is ongoing engagement with your audience and them returning to read new content – tracked through a metric like new vs. returning users.

There is no shortage of tools out there to help you collect and analyse data. Here are some suggested core tools:

- **Web:** Full suite marketing analytics tools track metrics such as page views and acquisition channels (where your visitors are coming from). Among the most popular tools are Google Analytics and Adobe Analytics.
- **Social media:** On social media you must keep track of your engagement rates, and how different posts and content formats, such as how videos or text, perform. These tools are built into the platform and are generally easy to use, while for the advanced user tools such as Sprout Social, Buffer and Hootsuite can display all your social channels on one dashboard.
- **Social listening:** Tools such as BrandWatch and Mention can help track mentions, keywords or hashtags across channels including social media and news site. This can keep you better informed of how your audience perceives your business.

The real value of marketing analytics is uncovering what's behind

the numbers: how your content and activities contributed to that spike (or drop) in page views and click-through-rates.

Search engine optimization

Search engine optimization (SEO) enables search platforms to better understand your website and match it to relevant search queries, with the goal of directing more organic traffic (rather than paid traffic) to your website. This can help create more awareness of your brand or services – ultimately becoming a lead generation mechanism.

With ever-changing algorithms, SEO has become a complex job. However, the beauty of SEO is that it requires a holistic approach focusing on the quality of content and how useful, original, and most importantly, how well it satisfies the reader's intent. The more your content fulfils the reader's needs, the higher it will rank.

SEO techniques include:

- A keyword strategy (the words your target audience search for). Popular keyword research tools include SEMRush and Ahrefs and you can supplement your research with Google Trends or Answer The Public to find trending topics.
- Optimizing your website loading speed.
- Acquiring backlinks (websites linking to your pages). A longer-term process, usually centred on outreach efforts to site owners or getting links from online directories and resource pages. Backlinko, a popular digital marketing website has a definitive link-building guide.

If your content doesn't provide any value, you are limiting your chances of getting backlinks. So, focus on your content!

Search engine marketing

Search engine marketing (SEM) is an online advertising technique that allows marketers to bid on selected keywords and have their website listed in the search results when a keyword is part of a search. For a B2B business SEM is best used for brand awareness and content reach amplification. Display network campaigns are usually a good fit – just avoid pop-ups at all cost.

Social media

Social media platforms cater to different audiences. While it may seem easier to create an account on every platform, it's much more effective to find those platform(s) which match your brand and objectives.

Finally, a well-defined and documented social media policy serves as an operational framework, governing behaviour, delegating responsibilities and outlining an escalation process in the case of social media emergencies. Having one in place will most likely minimize the risk of a social media crisis.

There's a lot to consider, but if you do your research, have the courage to experiment – and use data to guide your decisions – you should soon find the right mix to suit your organization's goals.

Are you prepared for country-by-country reporting filing in Hong Kong?

Edwin Bin highlights the key elements of the rather complex country-by-country reporting rules in Hong Kong and what needs to be done to comply with the requirements

Country-by-country reporting (CbCR) was introduced in October 2015 under the Final Report on Action 13 of the Organization for Economic Cooperation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) Project. CbCR is designed as an assessment tool for high-level transfer pricing risks posed by large multinational enterprise (MNE) groups. It may also be used by tax administrations in evaluating other BEPS related risks.

Since 2016, many jurisdictions have implemented CbCR. Hong Kong introduced its own requirements under the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (the amendment ordinance). Constituent entities (CEs) of "Reportable Groups" (RG) in Hong Kong (HK-CEs) must comply with the rules for financial periods beginning on or after 1 January 2018 (FY2018). Failure to comply could attract potentially heavy penalties.

The report

A country-by-country (CbC) report consists of three tables:

- Table 1 requires aggregate tax jurisdiction-wide information relating to the global allocation of income, profit, taxes paid, and certain indicators of the location of economic activity among tax jurisdictions in which the MNE group operates.
- Table 2 requires a listing of all the CEs of the MNE for which financial information is reported and the nature of the main business activities carried out by each CE. This is done by checking one (or more) of the 13 prescribed categories which include research and development, manufacturing

or production, sales, marketing or distribution, etc.

- Table 3 enables a MNE to provide additional information or explanation that is considered necessary, or that would facilitate the understanding of the compulsory information provided in tables 1 and 2.

Reportable Groups, CbC notifications and CbCR filing

Usually it should be relatively easy to determine if an entity is required to file a tax return or not. This is not the case for CbCR. A MNE is considered an "RG" for a period if its total consolidated group revenue in the preceding fiscal year exceeds a threshold level. For Hong Kong-domiciled groups this is revenue of at least HK\$6.8 billion, with the first implementation year of FY2018. Therefore, if a Hong Kong MNE reported revenue of HK\$7 billion in FY2017 it would need to file a CbC report for FY2018.

If the MNE's ultimate parent entity (UPE) is a tax resident in a jurisdiction other than Hong Kong, the MNE must follow the reporting requirements of that jurisdiction, or the default reporting threshold of €750 million (roughly HK\$6.6 billion).

If the RG's UPE is a Hong Kong tax resident (HK-UPE), the UPE shall file the CbC notifications with the Hong Kong Inland Revenue Department (IRD) within three months after their financial year-end. If the UPE is a tax resident in another jurisdiction they may appoint a HK-CE as the "surrogate parent entity" (HK-SPE). A SPE is the sole-substitute of the UPE for the filing of the CbC reports on behalf of

the group in the tax jurisdiction where the SPE is a resident. If a HK-SPE is appointed they shall file the CbC notification on behalf of all of the group's Hong Kong operations. Otherwise, HK-CEs can file CbC notifications independently or on behalf of other CEs of the group.

If the UPE or SPE is not a Hong Kong tax resident, the filing obligation falls on the HK-CEs as a local filing unless the IRD is able to obtain the MNE's CbC reports via exchange mechanisms in place with other jurisdictions. Whomever is the reporting entity (HK-UPE, HK-SPE or HK-CEs), they must file the CbC report with the IRD within 12 months after the year-end.

The above is related to the notification and filing of CbCR in Hong Kong. RGs have to manage the same process in all the jurisdictions they operate and meet any other specific local requirements.

The exchange mechanism

Automatic exchange of CbC reports with other jurisdictions is achieved based on an international agreement – the Multilateral Competent Authority Agreement on the Exchange of CbC Reports (MCAA). Hong Kong signed the MCAA in 2018 and as of June 2019, 56 bilateral exchange relationships have been activated. However, there is a catch: for Hong Kong the exchange relationship under the MCAA are effective for taxable periods starting on or after 1 January 2019.

What does it mean for CbCR filing for FY2018? As of June 2019, Hong Kong has signed bilateral CbC exchange agreements with 16 jurisdictions (see the table) to facilitate CbC report exchanges for earlier periods.

Jurisdictions Hong Kong has bilateral CbC exchange agreements with

| Jurisdiction | Earliest CbC reports available for exchange |
|----------------|---------------------------------------------|
| Austria | 2017 |
| Canada | 2017 |
| France | 2016 |
| Guernsey | 2017 |
| Ireland | 2016 |
| Italy | 2018 |
| Japan | 2017 |
| Jersey | 2017 |
| Korea | 2017 |
| Latvia | 2018 |
| Malta | 2017 |
| Mexico | 2017 |
| Netherlands | 2017 |
| New Zealand | 2017 |
| South Africa | 2016 |
| United Kingdom | 2016 |

For a foreign RG with HK-CEs, local filing for FY2018 by the HK-CEs would be inevitable – unless the UPE or SPE is a tax resident in one of the 16 jurisdictions and other conditions in the amendment ordinance are satisfied. If so the IRD can obtain the FY2018 CbC reports filed from these jurisdictions. From FY2019 onwards, the IRD is able to obtain reports from the 56 jurisdictions (or more), and a local filing may not be required.

Many foreign RGs are MNEs based in the United States. The U.S. did not sign the MCAA but instead arranged bilateral exchange agreements with other jurisdictions. Before the U.S. and Hong Kong conclude the bilateral agreement, local filings by the HK-CE of large U.S. MNEs will be required, unless the IRD can obtain CbC reports through a SPE that resides in a tax jurisdiction with which Hong Kong has a bilateral exchange relationship.

Preparation of the CbC report

RGs with operations in many jurisdictions would most likely have been preparing CbC reports for FY2016 and FY2017, and the local filing in Hong Kong would thus be an additional piece of reporting which does not involve tax calculations or liabilities.

Now that RGs must prepare CbC reports for the first time for filing in Hong Kong they should follow the rules in the amendment ordinance and the OECD Action 13. To help them, the OECD has issued the following guidance the *Guidance on the Implementation of CbCR* (last updated September 2018) and the *CbCR: Handbook on Effective Implementation* (2017).

Preparation of CbC reports is not rocket science. It is a process of gathering data and factual information. However, MNEs need to decide on their position to take in the CbC report and ensure that all CEs follow the same position consistently year-on-year. Each step also requires careful planning and execution in order to meet filing deadlines. Needless to say, the more CEs across different jurisdictions, the more difficult it will be to manage the process and the risk of error will increase. Training and strong project management are critical for completing CbC reports on time.

In addition, although MNEs are given 12 months to prepare the CbC report, when they can actually commence data input depends on how long it takes to finalize their financial statements. The longer it takes to finalize the accounts, the less time there is to prepare the CbC report. For many, the time available would likely be less than nine months.

The CbC reporting portal

In Hong Kong, CbC notifications and CbC reports must be filed via the CbC reporting portal. To do so, the HK-CE must register a CbC reporting account through the portal. The person authorized to register a CbC reporting account for the HK-CE has to apply for an e-Cert (Organizational) with automatic exchange of financial account information functions (e-Cert) from Hongkong Post for authentication purposes.

Similar to most tax jurisdictions, a CbC report must be in the form of an XML document for submission to the IRD. To assist, the IRD has developed a data schema in XML which is based on the



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CbC XML Schema v1.0.1 issued by the OECD. The data schema specifies the data structure and format for filing CbC report. The data schema and a related user guide are available on the IRD website for download.

Records keeping

Section 58L of the amendment ordinance requires that a "reporting entity" must (a) keep sufficient records to enable the accuracy and completeness of the CbC report to be readily ascertained; and (b) retain the records for a period of six years beginning on the date on which the return is filed. The burden on the reporting entity is indeed substantial and thus it is important to know which entity is the reporting entity.

Under section 58J of the amendment ordinance, a reporting entity includes the Hong Kong entity that is required to file a CbC return (i.e. the HK-UPE, HK-SPE or HK-CE) and any HK-CE that is required to file CbC notifications.

The record keeping obligation imposed on the HK-SPE or HK-CEs is somewhat burdensome. For example, a United Kingdom-based MNE with global operations would normally not allow the management team of the subsidiary (the HK-CE) to have access to financial information of the group entities outside their management responsibilities. The HK-CE would only have CbC notification obligation in Hong Kong (as the IRD can obtain the group CbC report from the U.K.'s Her Majesty's Revenue and Customs via the exchange mechanism). Yet, section 58L requires the HK-CE to maintain sufficient records for six years to enable the accuracy and completeness of the group's CbC report be ascertained.

Penalties

Division 6 of Part 9A of the amendment Ordinance contains the penalty provisions for CbCR. The new section 80G provides that a reporting entity commits an offence if the entity, without reasonable excuse, fails to file a CbC notification, or CbC report, or keep records as required under section 58L. That reporting entity would be liable on conviction to a fine at level 5 (HK\$50,000), and the court may order the entity to complete the act it failed to do, within a specified time frame. The reporting entity is liable to a further fine of HK\$500 for every day or part of a day during which it fails to file the CbC notification or CbC report.

Obviously, there are further penalty provisions, including imprisonment for three years, for more serious offences.

Concluding comments

CbCR is a very unique tax filing. There is no tax to be calculated and no money to be paid, the "taxpayer" can in some cases choose where to file it but needs to comply with all the CbCR rules and regulations in all jurisdictions that they operate in, and corporate restructuring or mergers and acquisitions could bring chaos to the notification and filing. In an acquisition, the buyer will need to obtain warranties or indemnities from the seller for exposures relating to CbCR. Compliance with records keeping obligations may also create tension between the buyer and seller.

With all the complexities, jurisdictions should implement the CbCR rules in a lenient manner, thereby reducing the pain felt by businesses. For instance, Singapore only accepts UPE filing (i.e. MNE whose UPE is a Singapore tax resident,

and no surrogate parent or local filing is accepted) and the local tax office would inform the UPE that they need to file the CbCR. In addition, Singapore's CbCR filing is done by sending the CbC report in XML format to the Inland Revenue Authority of Singapore via email.

Unfortunately, Hong Kong has taken a very different approach, which may erode Hong Kong's reputation as a friendly international business centre.

Readers should note that the objective of this article is to highlight the key provisions in the CbCR rules. For completeness, readers are advised to seek professional assistance to enhance their understanding of the rules, their obligations and the penalty provisions.



Edwin Bin
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TECHWATCH 201

The latest standards and technical developments

Local updates

Invitations to comment

The Institute is seeking comments on:

- The International Accounting Standards Board (IASB) exposure draft ED/2019/3 Reference to the Conceptual Framework – Proposed amendments to IFRS 3 by 23 August.
- The IASB exposure draft ED/2019/4 Amendments to IFRS 17 by 19 August.
- The International Auditing and Assurance Standards Board's (IAASB) discussion paper on Audits of Less Complex Entities by 12 August.

Institute submissions

The Institute commented on:

- IAASB Consultation Paper Proposed Strategy for 2020-2023 and Work Plan for 2020-2021.
- IAASB Consultation Paper Extended External Reporting Assurance.
- IAASB exposure draft Quality Management for Firms and Engagements.
- IASB exposure draft ED/2019/1 Interest Rate Benchmark Reform – Proposed amendments to IFRS 9 and IAS 39.

International updates

Audit and assurance

- International Federation of Accountants (IFAC) audits of less complex entities survey.
- IAASB audits of less complex entities webinars.
- IAASB highlights podcast of June meeting.

Ethics

- IFAC articles:
 - Dealing with ethical dilemmas with confidence.
 - Paying professional ethics more than lip service.
- International Ethics Standards Board for Accountants (IESBA) highlights podcast

of June meeting.

- IESBA eCode.

Financial reporting

- The June IASB update and podcast is now available with the updated work plan.
- The June International Financial Reporting Interpretations Committee update includes a summary of the decisions reached by the IFRS Interpretations Committee in its public meeting. In particular, it includes an agenda decision which explains how an entity applies existing IFRS Standards to holdings of cryptocurrencies. The Institute has previously submitted comments on the related tentative agenda decision.
- A webcast discussing the application of International Accounting Standard 23 *Borrowing Costs* and its interaction with International Financial Reporting Standard 15 *Revenue from Contracts with Customers* was recently released in response to an agenda decision published by the IFRS Interpretations Committee.

Professional accountants in business

Companies Registry announces the non-Hong Kong companies regulation

On 17 June, the Companies Registry (CR) issued External Circular No. 2/2019 to announce that the Non-Hong Kong Companies (Disclosure of Company Name, Place of Incorporation and Members' Limited Liability) Regulation (Cap. 622M) will come into operation on 1 August.

The regulation re-enacts the existing provision of section 792 of the Companies Ordinance (Cap. 622) and aligns the disclosure obligations of non-Hong Kong companies with those of Hong Kong companies.

Detailed requirements for a non-Hong Kong company on the display of its

company name and place of incorporation, the disclosure of members' limited liability and related matters are provided in the regulation. Please also read the CR External Circular for ready reference.

Small and medium practices

Participate in the IFAC survey on audits of less complex entities

Small and medium practices are encouraged to participate in the audits of less complex entities survey conducted by IFAC to explore the challenges in applying the International Standards on Auditing in audits of less complex entities and the possible actions to address these challenges. The survey is open until 12 September, and should take less than five minutes to complete.

Corporate finance

SFC and CSRC hold high-level enforcement cooperation meeting

The Securities and Futures Commission (SFC) and the China Securities Regulatory Commission (CSRC) recently held the eighth regular high-level meeting in Nanning to discuss a range of matters concerning cross-boundary enforcement cooperation.

The SFC and the CSRC, during the meeting, reached an agreement on a cooperative framework to facilitate coordinated investigations into cases of mutual concerns, under which they may jointly tackle high impact or urgent cross-boundary cases.

The two regulators also explored ways to strengthen cross-boundary enforcement cooperation, including:

- A notification mechanism for cases involving companies listed both in Hong Kong and the Mainland (i.e. issuers of A and H shares), and an evidence sharing mechanism under the International Organization of Securities Commissions Multilateral Memorandum of

- Understanding; and
- Organizing thematic joint training and case study workshops to share investigation techniques and experiences.

Please refer to the press release for details.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Comprehensive avoidance of double taxation agreement with Cambodia.
- Tax obligations of property owners.
- Tax obligations of taxpayers and employers.
- Stamp Duty statistics (May 2019).
- Filing tips for 2018/19 profits tax returns.
- Inland Revenue Department Performance Pledges 2019/20.

Legislation and other initiatives

Anti-money laundering/counter-terrorist financing news

The Financial Action Task Force (FATF)'s Mutual Evaluation Report of Hong Kong was examined at the FATF plenary meeting on 20 June in the United States. The report assesses the compliance and effectiveness of Hong Kong's anti-money laundering and counter-terrorist financing (AML/CFT) regime against the international standards. While there will still be some follow-up work to do, Hong Kong's system has been assessed to be compliant and effective overall, making it the first jurisdiction in the Asia-Pacific region to have achieved an overall compliant result. So far only five out of 23 assessed jurisdictions have been rated overall compliant by the FATF. The final report is expected to be published later in the year.

The FATF also recently published a Mutual Evaluation Report of the People's Republic of China.

AML/CFT notices

- The FATF public statement
A public statement was published on 21 June regarding one jurisdiction subject to an FATF call to apply counter-measures to protect the international financial system from the ongoing and substantial money laundering and terrorist financing risks emanating from the jurisdiction, namely Democratic People's Republic of Korea, and one jurisdiction subject to a FATF call to apply enhanced due diligence measures proportionate to the risks arising from the jurisdiction, namely Iran.
- Jurisdictions which have strategic AML/CFT deficiencies which have developed action plans with the FATF
In another document entitled *Improving Global AML/CFT Compliance: On-going Process*, the FATF has identified 12 jurisdictions (namely, The Bahamas, Botswana, Cambodia, Ethiopia, Ghana, Pakistan, Panama, Sri Lanka, Syria, Trinidad and Tobago, Tunisia, Yemen) with strategic AML/CFT deficiencies. These jurisdictions have developed an action plan with the FATF.
- For the current lists of terrorists, terrorist associates and relevant persons/entities under United Nations (UN) sanctions, members should refer to the Institute's AML webpage which is updated regularly. The United Nations Sanctions webpage of the Commerce and Economic Development Bureau contains consolidated lists of UN sanctions currently in force in Hong Kong.

AML/CFT guidance

- The FATF has published an updated *Guidance for a Risk-based Approach for the Accounting Profession*. This guidance includes a general presentation of the risk-based approach (RBA) and provides specific guidance for individual professionals, firms, and supervisors.

RBA guidance for trust and company service providers, and legal professionals have also been published by the FATF for the first time.

For mandatory guidelines and information from the Institute on the AML/CFT requirements for members, see the Institute's *Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants*.

- Members who are licensed to provide trust or company services should also see the *Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers*, by the CR.
- Members should ensure that they are aware of the *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report* (in particular Chapter 6, covering designated non-financial businesses and professions), which indicates ML/TF risks and vulnerabilities in the Hong Kong market.



Please refer to the full version of TechWatch 201, available as a PDF on the Institute's website: www.hkicpa.org.hk

IN FULL SWING

A good round of golf might seem straightforward, but it is harder than it looks. Three CPA golfers tell [Jeremy Chan](#) about their goal of mastering the perfect swing, and how practicing at golf simulators benefits both casual and professional players

Photography by Anthony Tung

In golf, one in every 12,500 tee offs from a casual player will be a hole-in-one, and only a handful of professional golfers have been able to achieve such a feat during tournaments. So when Jeffrey Wang pocketed his first ever hole in one, he was understandably ecstatic.

Out of the round's 18 holes, he scored a hole in one on the 17th hole from 169 metres away on the second day of the Tasmania Open Amateur Golf Tournament in 2012. "It might have been the cleanest shot I ever hit," says Wang, Manager at Fung (1937) Management, and a Hong Kong Institute of CPAs member. But that excitement, however, was quickly eclipsed by disappointment.

Wang wrote down what he thought was his correct score, but out of excitement, forgot to cross-check it with his partner – who had written down Wang's actual score. Upon submitting the wrong score, he was subsequently disqualified from the tournament. Crestfallen as he was that day, Wang says it was a learning experience. "Never celebrate until scorecards are official," he says. Such mishaps are bound to happen on the golf course, according to Wang – who now painstakingly checks his scorecard at every game, and reminds amateur players to do the same.





Karen Yip
regularly trains
at Kau Sai Chau
Golf Club in
Sai Kung.

“Since I started playing 18 years ago, I have maintained a spreadsheet to keep a record of every round played, including where, with whom, the total score and the score of every single hole.”

Staying consistent

People have been playing golf in Hong Kong for well over a century. In addition to Hong Kong Golf Club, which first opened in 1889, golfers can also tee off at the city's four other courses – Kau Sai Chau Golf Club, Clearwater Bay Golf and Country Club, Discovery Bay Golf Club and Shek O Country Club. But with long waiting lists and often pricey memberships, many hone their skills at indoor golf simulators, or practice at Kau Sai Chau Golf Club, the only one open to the public. Even this can be challenging. It is located on an island west of Hong Kong's Sai Kung district, and is only reachable by ferry.

But the golf course's remote yet scenic location, makes it Karen Yip's favourite place to practice.

“The surrounding scenery is absolutely beautiful, the East course in particular, with great views of the sea interspersed with stretches of small islands,” says Yip, who used to work at UBS Bank as Head of Finance, and is an Institute member. Her first brush with golf came during the last day of an overseas business trip in London back in 1998, when a few of her colleagues taught her a few basic swings, and then invited her to play a round of nine holes. “I had never set foot on a golf course, nor had I held a golf club in my hands,” she says. “I just

loved hitting the ball and walking on the golf course.” She continued to practice with family members and colleagues in Hong Kong during the years after, and joined the Institute's Golf Interest Group (GIG) in 2011.

Yip is now part of the group's organizing committee, which helps to arrange training events for both current and new members. After regularly taking part in the GIG's non-tournament groups, which focuses on friendly games, she decided to try her luck and represent the Institute at the Recreation and Sports Club for Hong Kong Professional Bodies' (RSCP) Joint Professional Golf Tournament 2019. The tournament took place at the Clearwater Bay Golf and Country Club in March, and Yip achieved the best net score. Unlike a gross score, net score is determined after handicap strokes have been deducted.

Her secret to victory, she says, is consistency. “There is a bit of luck involved,” she explains. “Out of the 18 holes we play, several holes are picked randomly to determine our handicap in order to calculate the total net score of the round. As I played that round quite consistently, it didn't matter which holes were picked.”

Yip carefully keeps track of her golf progress – using a spreadsheet. “Since I started playing 18 years ago, I have maintained a

spreadsheet to keep a record of every round played, including where, with whom, the total score and the score of every single hole,” she says with a beaming smile. “I played my 1,500th round last month.” By recording her progress, she clearly sees how her game progressed over the years. “I improved the most during the first few years but reached a plateau after about five years. My retirement a year ago let me pursue my passion for golf even further. I'm totally enjoying the journey, but I still have a long way to go.”

To maintain her skills, she has been training at local indoor golf simulators for the past two years. “I have a very good coach who has been helping me in the last two years to improve my swing,” she says. “I also need to make sure that my body remains flexible. So I do a lot of stretching at home and have recently started taking yoga lessons. This helps to improve my golf swing and prevent injury too.” Yip hopes to continue playing golf with her family and friends at the GIG, and hopes newly-qualified CPAs will consider joining the group's weekend practice sessions, where committee members are happy to teach newcomers basic moves. “Golfers of all levels can play together in the same round. If you love the great outdoors and the open, natural scenery, you will really enjoy golf.”



Clement Chow practicing his swing at indoor golf simulator GOLFTEC.

Synchronized swing

When it comes to the drive, hitting a golf ball from the tee box down to the fairway, Clement Chow knows exactly what he is doing. He began playing golf soon after qualifying as a chartered accountant in the United Kingdom. After returning to work in Hong Kong he was looking to try out his swing at one of the city's golf courses, but couldn't find the time until he joined the GIG in 2005. Chow, who is Head of Investor Relations at NWS Holdings, and an Institute member, is now a regular at the Institute's golf tournaments.

He won the prize for achieving the longest drive during the 2011, 2013, 2014 and 2018 CPA golf tournaments, and seems to do especially well on one particular hole. He achieved the longest drive

at the 2013 CPA golf tournament and other tournaments such as the 2016 American Cup and RSCP's Joint Professional Golf Tournament 2018 – all on hole four. "Local or club tournaments, I always seem to get the longest drive on that hole. It's very kind to me," he laughs.

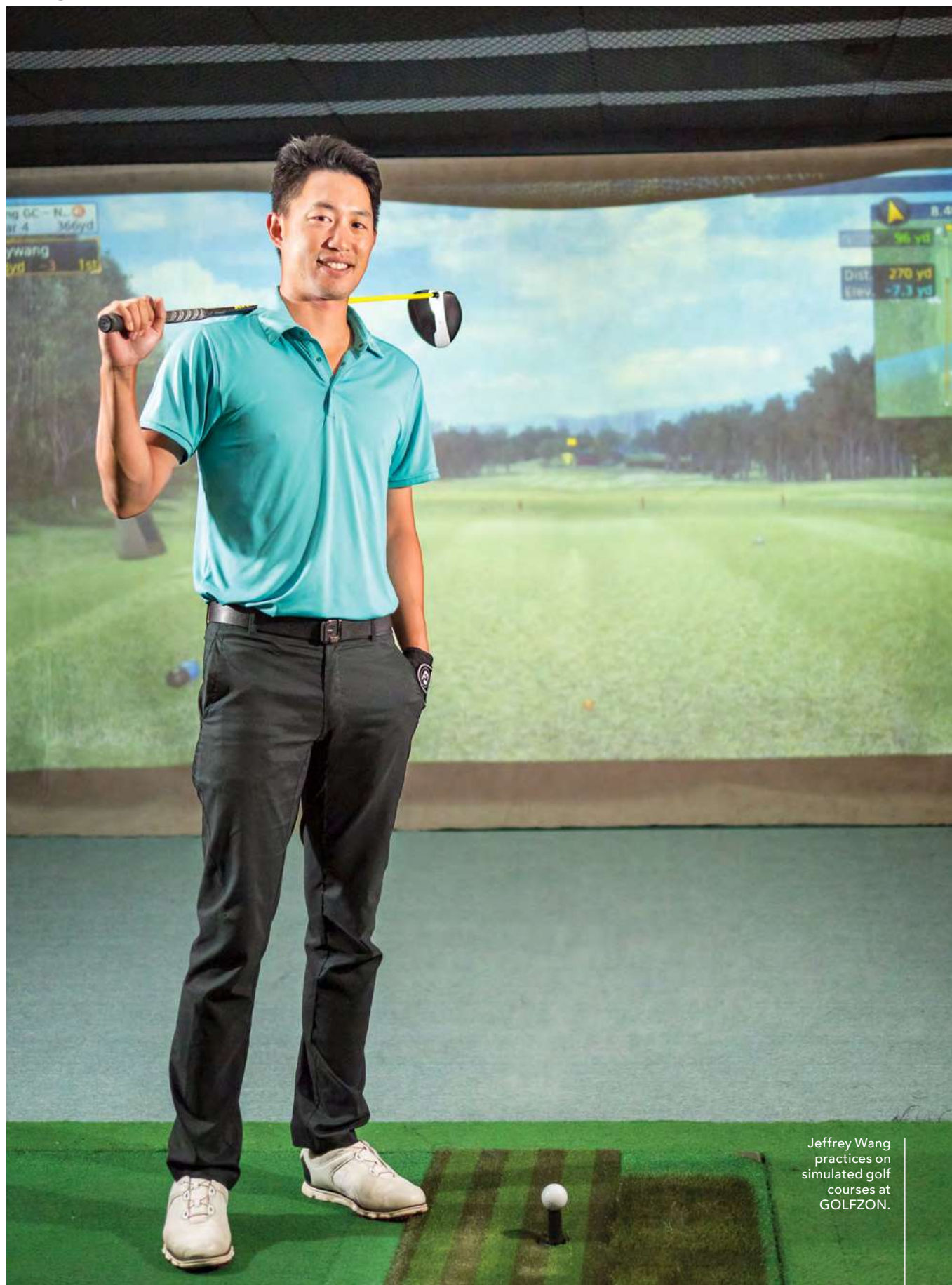
Chow's key to keeping his swing ready for a powerful drive is vigorous practice. Like Yip, he practices at local golf simulators such as GOLFTEC up to twice a week with a coach, and explains how motion tracking technology has helped him the most to improve. "Ten years ago, we would analyse our swing by watching videos of ourselves, but nowadays we can obtain real-time swing analysis data with the assistance of launch monitors and motion measuring

devices," says Chow, referring to monitors that use numbers to display how much a golfer is turning, tilting or bending and whether the ball is hit in the right spot, all in real time. "So if you have a good shot, you know exactly what you did right," he adds.

He shares the secret behind his swing. "In golf, you're hitting a stationary object. Because of this, you need rotational mobility and core stability to store and release energy efficiently. Your upper body needs to turn against the lower body to generate torque before initiating a downswing," he says. "To hit a good shot, a golfer has to create and keep body angles to achieve optimal swing metrics including clubhead speed, path and attack angles at impact."

WORK AND LIFE

CPA golfers



Jeffrey Wang practices on simulated golf courses at GOLFZON.

“Many professionals train and improve using simulators. Beginners can also perfect their swing at simulators before heading out to a golf course.”

By training with a simulator and coach, he is also able to gradually correct issues relating to body posture or angle of swing. “You need to address problems early on, otherwise these mistakes can become part of your muscle memory,” he says. “Practicing mistakes must be avoided at all cost if you wish to improve your game – that’s why you need feedback from modern equipment.”

Eager to win the title of longest drive again, Chow looks forward to taking part in future CPA, RSCP and international golf tournaments. But above all he wants to keep improving. “I’ve been playing golf for 30 years, but I never stopped taking lessons.”

Mental resilience

After trying a round of golf at age 10 with his father, Wang fell in love with the sport and stuck with it since then, all through his secondary school and university years. “I loved hitting golf balls and seeing it fly high into the air, regardless of whether it was struck well,” he remembers. Shortly after gaining his CPA qualification while working at PwC, he decided to chase his dreams of becoming a professional golfer, and took three years off work from 2011 to 2014. “There are a lot of good golfers on tour, and I wanted to see whether I was at tour level,” he says.

He took part in training camps in Switzerland and Australia and competed in amateur tournaments in China. Unmoved by his

disqualification in early 2012, he ended up winning a golf tournament at Shenzhen’s Mission Hills – the largest golf course in the world – a few months later, which he considers to be one of his greatest accomplishments. “I felt quite comfortable playing there, and without much expectation I won that tournament.”

Wang joined the GIG and CPA golf team that same year and has since participated in the RSCP golf tournaments four times. He achieved the best gross score of 72 during the RSCP’s Joint Professional Golf Tournament 2018. In his years of experience playing multiple tournaments against amateur and professional players, he says that golf requires a careful interplay between one’s physical and mental strengths. “The most difficult thing about playing a tournament is staying focused for five consecutive hours,” he says. During competitions, golfers often face fatigue and stress during long games, especially when it comes to the last few holes. “I start to get nervous and start thinking about the score too much – so I pretend that the last three holes are the first three holes, or just another day of golf.”

But he loves the game, and adds how playing the sport in various weather conditions makes it even more exciting, yet challenging. “Golf is about the elements – it can change how you play a game,” he says. “On a rainy day, you need the right gear – rain gloves, a raincoat, the right pants – and all

that clothing can affect your swing, so you need to make adjustments.”

With rain can come wind, which adds another level of difficulty for a golfer to master. “If the wind is coming from the right, aim in that direction and let the wind guide the ball towards the target,” says Wang.

Also a fan of golf simulators, Wang trains at GOLFZON, another local indoor practice venue, capable of simulating real golf courses located around the world. This gives him a chance to practice his swing on a wide variety of holes – and as many times as he feels necessary. Two sensors capture his movements every time he swings a golf ball towards a projector screen, and the flooring adjusts its gradient depending on which part of the simulator’s course he is playing from.

Because of this accuracy, it is a convenient way to practice before heading out to the actual course on game day, notes Wang. “Many professionals train and improve using simulators. Beginners can also perfect their swing at simulators before heading out to a golf course.” It is also a way he introduces the sport to his friends. “It’s a great place to relax on the weekends, have a few beers and teach golf to friends who haven’t tried it before.”

Though busy with his job, Wang is practicing diligently with the aim of turning professional within the next few years. “My dream is to compete at the Hong Kong Open.”



Members interested in joining or learning more about the Institute’s Golf Interest Group can find more details on www.hkicpa.org.hk.



YOUNG MEMBER OF THE MONTH

Janet Wong

JANET WONG

Senior Analyst of Internal Control at
Estée Lauder Companies





Janet Wong's job as Senior Analyst of Internal Control at Estée Lauder Companies involves a rigorous travel schedule, and requires her to always be quick on her feet. The young member tells *A Plus* the important lessons she's learned from supervisors, and how her CPA skills help each day

What is your current role and responsibilities? How is it going so far?

I perform risk-based reviews on our Asia-Pacific affiliates to ensure efficiency and effectiveness, for example in their retail and e-commerce operations, supply chain, and inventory management. Though challenging, I'd say things are going very well and I enjoy the job.

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

I love travelling, and because we need to audit different affiliates across Asia-Pacific, I can travel with my team to places such as South Korea, Malaysia, Singapore and Mainland China. The audit work, however, can be challenging due to the company's diverse portfolio of brands, so I need to be a quick learner and really understand each company's technical process. This means doing my own research before the trip.

Where do you see yourself in the next five to 10 years in your career? Which field do you plan on specializing in, and why?

I would like to remain at Estée Lauder focusing on internal audit for the next few years, and aim to be senior general manager one day. In the future I would like to specialize in risk management and advisory, as I feel it would provide me a better overall view of a company's business.

What has been the biggest challenge you have faced in your career so far and how did you overcome it?

I also had to travel quite a bit during my previous role at Esprit to perform on-site audits on our company's operations in Europe, such as in Germany, Sweden and Denmark, and there would often be miscommunication due to language barriers and differences in working styles. Though it can be frustrating, I learned the need to be patient, and to understand that others work differently. I remember we once requested our colleagues in Germany to send us urgent documents – but since it was a holiday the following day for them, they asked if we could send it after. With careful communication, they were fortunately able to send everything before the holiday. I believe working with people from different cultures really gives you a global mindset.

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

I learned how to strike a balance between my quality of work and timeliness of work submission. I used to take hours and work late into the night to check and perfect my working papers. My previous boss taught me that timeliness is everything, and if I run into problems, that I should seek direction from managers to address any issues earlier on, which speeds up the process.

How do you think the Qualification Programme (QP) has helped you in your career so far, or prepared you for your current role?

The QP is very structured, and teaches what you really need to know in the business world. I found Module C, Business Assurance, to be most useful in my current role as it covered internal audit, and the red flags to look out for when identifying audit fraud. The QP really is a bridge between a typical university student and a professional. The exams were really tough, but if I hadn't taken part in this programme, I wouldn't have been able to understand the business world as well.

Book review



If you are convinced that artificial intelligence (AI) consists of disembodied and unstoppable computer programs enslaving humanity, *Possible Minds: 25 Ways of Looking at AI* is not for you. However, if you're, say, an accountant, and curious as to your future work-life balance, and perhaps the job prospects for your children if they should follow your path, then the book, a series of essays from 25 scientists, is instructive and only mildly disconcerting.

It is true that one contributor, Venki Ramakrishnan, an Indian Nobel Prize-winning biologist, believes that accountants – along with “many legal and medical professionals, financial analysts and stockbrokers, travel agents – in fact, a large fraction of white-collar jobs – will disappear as a result of sophisticated machine-learning programs,” but he is in the minority. Steven Pinker, the Canadian experimental psychologist, for example, believes AI will be a boon to the profession, shouldering the weight of tasks that

accountants don't have the time or ability to do such as sorting millions of transaction records.

But *Possible Minds* covers the corporate role of AI more from an ethical, rather than a practical, perspective. Daniel C. Dennett, Professor of Philosophy at Tufts University in the United States, would like to see AI operators licensed. “Once we recognize that people are starting to make life-or-death decisions largely on the basis of advice from AI systems... those who in any way encourage people to put more trust in these systems than they warrant should be held morally and legally accountable.”

Stuart Russell, Professor of Computer Science and Engineering at the University of California, Berkeley, believes in self-limiting robots. “A robot that's uncertain about human preferences actually benefits from being switched off, because it understands that the human will press the off switch to prevent the robot from doing something counter to those preferences.” AI, Russell notes, is very much under

the consumer spotlight. “If one poorly designed domestic robot cooks the cat for dinner, not realizing that its sentimental value outweighs its nutritional value, the domestic-robot industry will be out of business.”

However, the central concern of most of the authors is not that runaway AI will somehow exert its own power over humanity, but that malicious operators will pervert technology to achieve their own ends. W. Daniel Hillis, Professor of Engineering and Medicine at the University of Southern California, worries about the corporate control of AI.

“Our most powerful and rapidly improving [AI is] controlled by for-profit corporations,” he writes, citing Google, Amazon, Baidu, Microsoft, Facebook, Apple and IBM. Their machines, he adds, “will be designed to have goals aligned with those of the corporation... [and] they will become more powerful and autonomous than nation-states.”

Possible Minds looks at the culture and

science from an overwhelmingly American perspective. There is no mention of the AI research and development carried out in China in companies such as Tencent or Alibaba, or even the latter's Zoloz, the Kansas City-based AI start-up owned by Ant Financial that is the core of Alipay. There is also no mention of Beijing's New Generation AI Development Plan, a policy announced in 2017 that outlines China's strategy to build a domestic AI industry worth nearly US\$150 billion in the next few years and to become the leading AI power by 2030.

The book's perspective is also overwhelmingly male: just three of the 25 essays are written by women. That is a shame because some of them have the most illuminating insights about AI. Caroline A. Jones, Professor of Art History at the Massachusetts Institute of Technology, presents a fascinating history of the role of AI in the arts, invoking the Xiamen-born sculptor Wen-Ying Tsai and his interactive "cybernetic art" that enthralled New Yorkers in the 1960s.

Anca Dragan, an Assistant Professor of Electrical Engineering and Computer Sciences at UC Berkeley, specializes in AI-human interaction, a field highlighted by such incidents as the self-driving Uber car fatally striking a pedestrian in Arizona in 2018. "The autonomous car shares the road with pedestrians, human-driven vehicles, and other autonomous cars," she writes. "How to combine these people's values when they might be in conflict is an important problem we need to solve."

Moreover, developmental psychologist Alison Gopnik, a professor at UC Berkeley, warns that although AI and machine learning "sound scary," humanity's "natural stupidity can wreak far more havoc" than AI. "But there is not much basis for either the apocalyptic or the utopian vision of AIs replacing humans," Gopnik adds. "Until we solve the basic paradox of learning, the best artificial intelligences will be unable to compete with the average human four-year-old."

Editor interview: John Brockman

John Brockman has spent a life following the avant-garde, whether in literature, art, science and technology, or since the 1990s, in the online world. In 1996, he started www.edge.org as an online manifestation of The Reality Club, an informal gathering of thinkers who had been meeting since 1981 to discuss pressing issues in science, technology and the humanities, from forecasting to behavioural psychology.

Possible Minds: 25 Ways of Looking at AI is one of a series of anthologies produced annually by Brockman's Edge Foundation. "In terms of big issues, I think the next shoe to drop is this whole world of AI," he says.

It is not the first time that Brockman and his intellectual acquaintances have studied the subject. "I met the original cyberneticists in 1965 and... it got pretty boring in the 1980s and I just walked away from it."

He then expected the Japanese, with their industrial robotics knowhow, would own the technology in that decade. "Everyone said 'they're coming, they're coming' but nothing happened – it petered out into another AI winter."

Two decades later, it's a different world, he acknowledges. "You wake up and there's something called unsupervised self-fulfilling deep learning: the AlphaGo software, [British neuroscientist] Demis Hassabis and [AI company] DeepMind. So I put together a dinner in London and invited Demis, the idea being let's

have him talk to [U.K. physicist] David Deutsch and get a sense of what's going on."

Gathering people together to talk about "what's going on" has been a Brockman hallmark since childhood. Born in 1941, into a family of Austrian immigrants to Boston, Brockman admired his father's hard work as a wholesale flower-seller.

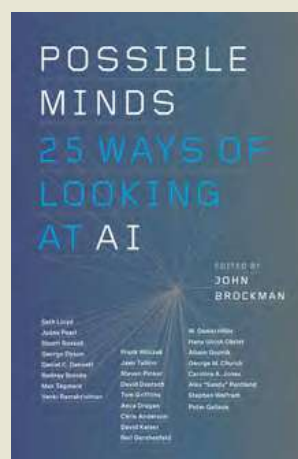
He studied business at Columbia University in New York, but found his true métier in the arts, working odd jobs in theatres and hanging out with figures such as novelist Ken Kesey and actor-playwright Sam Shepard.

After a brief career in sales,

Brockman wrote an early business self-help book that was not well-received by critics before launching a career as a literary agent, eventually signing up heavyweights such as popular science authors Richard Dawkins and Jared Diamond. In the 1980s, he created The Reality Club, reminiscent of 18th century salons

where thinkers, many unorthodox, gathered to express themselves about issues and ideas – often in fields that were not their core studies.

Brockman's London AI dinner also featured the writer Ian McEwan and film director Terry Gilliam, formerly of the *Monty Python* comedy troupe. "There was a group of 10 or so and many were people that have nothing to do with computing," Brockman says. "But they have a lot to say about reality."



LIFE AND EVERYTHING

As recommended by *A Plus* editors

ART



The Big Happy Dying

DIVERSE DANCE

Starring local performers, The Hong Kong Arts Development Council is showcasing unique live performances from now until the end of the year. The four plays will take viewers of all ages on a journey through music, dance and storytelling and showcase the creativity of local actors and dancers – some of them still in secondary school. The play *The Big Happy Dying*, which has been performed in Shanghai and South Korea, will artistically explore the notions of life and death. *L'Orphelin* will tell the old Chinese folk story of *The Orphan of Zhao*, an orphan who avenged his family's death after growing up, without the use of a set or any props. *So Low* will illustrate life's hardships through choreographed dance and music. *JunGo!* will keep the young ones entertained with its talented group saxophone players who put their spin on classical, jazz and pop music while pretending to be different animals. The musical is joined by children's entertainer Harry Wong, whose magic tricks will captivate audience members.



L'Orphelin

Dates and times: From September - December, refer to the website for show dates and time schedules

Venue: Cultural Activities Hall, Sha Tin Town Hall (*The Big Happy Dying* and *L'Orphelin*), Multi-media Theatre, HKICC Lee Shau Kee School of Creativity (*So Low*), Sheung Wan Civic Centre, Cultural Activities Hall, Tsuen Wan Town Hall and Theatre, Ngau Chi Wan Civic Centre (*JunGo!*)

Price: From HK\$200

Tickets: www.urbtix.hk

EAT

THE GREEN WAY

Hong Kong plant-based establishment MANA! opens its third eatery this month in Wan Chai's Star Street district. Dubbed MANA! Starstreet, the restaurant's menu will offer its signature classics burger, made with halloumi cheese, tofu, pickles, portobello mushroom, and its falafel flatbread, made with falafel, fresh tomato, romaine lettuce, picked peppers, parsley and tahini. It also boasts vegan-friendly desserts and gluten-friendly locally-brewed beer. The new branch will have a build-your-own salad bar and plant-powered V-coffee bar, where patrons can enjoy vegan coffee. Going by its zero-waste policy, the restaurant uses recyclable and compostable packaging only, and customers who bring their own container get 10 percent off each meal.



Address: 8-10 Queen's Road East, Wan Chai

Opening hours: 9:00 a.m. - 9:00 p.m. (Monday - Saturday)

Website: www.mana.hk

DRINK

A TOAST TO GIN

Gin Festival Hong Kong takes place next month in the city. Attendees will have close to a 100 different gins to choose from, including a selection of a few limited edition bottles. The event will bring together some of Hong Kong's leading bartenders and gin enthusiasts for a day filled with seminars, tastings, food, music and gin-infused cocktails.



Date and time:

17 August,
1:00 p.m. - 9:00 p.m.

Venue: Renaissance
Hong Kong Harbour
View Hotel, 1 Harbour
Road, Wan Chai

Price: HK\$190

Tickets:
www.ticketflap.com

EXHIBITION



FOOD EXPO

Hosted by the Hong Kong Trade and Development Council, the Food Expo makes it way to the city next month, bringing more than 1,560 suppliers of food and beverage products, and cuisine from countries such as Japan, South Korea, Taiwan, Czech Republic, Poland and Canada. The exhibition, now in its 30th edition, will also have a halal food and Chinese medicine zone on display this year and expects over 20,000 trade buyers and half a million visitors to attend. There will be cooking demonstrations from international experts and Michelin-starred chefs.

Dates: 15-19 August

Opening hours: 10:00 a.m. - 10:00 p.m., (15-18 August),
10:00 a.m. - 6:00 p.m. (19 August)

Venue: Hong Kong Convention and Exhibition Centre

Price: From HK\$10

Website: www.hktdc.com/hkfoodexpo

We're the things that count

Hong Kong's humorist on why counting should not be a skill only restricted to accountants



Nury Vittachi

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“The things that count can't be counted,” says a supposedly wise old adage. That's SO unfair to accountants and financial journalists! Our jobs depend on counting stuff accurately.

And business people and the rest of the media would be in big trouble without us providing some actual SOLID FACTS (almost extinct in journalism these days) for them to use.

Example: A colleague of mine was on a team of journalists reporting on the long, drawn out death of an elderly state leader in Japan.

His demise took so long that all the news reporters needed a break and the financial reporter was told to stand outside the hospital and cover the story for a day. He wrote reports such as the following:

“The Emperor's blood pressure saw a four percent drop this morning but analysts say it could recover later. Pauses between breaths remained steady at 4.5 seconds but experts are divided over the meaning of a three percent increase in heart rate. More at the top of the hour.”

Far superior to regular reportage, right?

One challenge is that accountants and financial journalists have to get it right – others don't.

A decade ago, then-property magnate and TV personality Donald Trump took out a lawsuit against an author named Timothy O'Brien for describing him as a multi-millionaire. The term “multi-millionaire” was a “*yuuuuge*” insult for someone who is actually a billionaire, Trump said.

But a judge eventually ruled against the tycoon, saying that a person cannot be charged for having an opinion. The legal point was that if an ordinary person guesses someone's net worth, then it's just an opinion – but if an accountant or a financial journalist does it, they are responsible for getting it right.

It's not easy. Accounting standards don't allow firms to value their own brands because they will put an extremely positive spin on them. Example: Shortly after the Trump lawsuit mentioned above, there were more attempts to count his loot. In

2009, he claimed his net worth was US\$8 billion. But accountants and financial journalists counted a paltry US\$2.7 billion worth of stuff.

Trump explained the discrepancy: “Maybe I'm adding four or five billion's worth, three billion, for the value of a brand.”

Many journalists, including this one, mocked him mercilessly – but we had to eat humble pie when it became obvious that his brand really did exist and eventually won him the top job in his country.

In mergers and acquisitions, accountants trying to account for things such as “brand value” add an item called “goodwill” to their reports, defined as “an intangible asset that can neither be seen nor touched.” (Why am I reminded of Ivanka Trump's design expertise?)

When a brand is included in the purchase price of a company, its value will be determined by the buyer, who will then be able to include it on his own balance sheet. But it's hard to get it right.

One of the great discoveries of recent years is that what seems like negative brand value (“leader XYZ is dangerous and unpredictable”) can have positive value: Trump is one example, and another is Rodrigo Duterte in the Philippines. Both had negative reputations which took them to fame and power.

But we already knew that here in East Asia. One of those old sayings attributed to Confucius goes like this: “Adulation and notoriety both lead to the same place.”

Those old adages can be useful, I guess. But some need a little editing to be useful today.

“The things that count can't be counted. The things that can't count can get jobs as stockbrokers or reporters.”

We need more occasions when valuations are straightforward.

I once wrote an article in the newspaper which quoted a company saying that “the valuation of cash holdings” had not been completed at this time.

Later that day I received a message from an accountant. “I can value the cash holdings for them, if they like,” he said. “All them have to do is tell me how much they have.”





ACCOUNTING AND BEYOND

QUALIFICATION PROGRAMME 20th ANNIVERSARY LOGO DESIGN COMPETITION

The Hong Kong Institute of Certified Public Accountants' Qualification Programme will proudly celebrate its 20th anniversary in September 2019. To commemorate this important milestone, we are in search of inspiring designs for our 20th anniversary logo.

ENQUIRY

Email: QP20@hki CPA.org.hk

SUBMISSION DEADLINE

26 August 2019

WHO CAN JOIN?

The competition comprises three categories:

- **Open** – for professional practitioners in the design industry and the general public.
- **Tertiary** – for students from tertiary education institutions or professional design schools/institutions.
- **Secondary** – for students currently studying at secondary schools.

* The Institute's staff and members of the judging panel are NOT eligible to join the Competition.

SUBMISSION REQUIREMENTS

- The theme of the anniversary celebration is "**Accounting and beyond**". The composition elements of the anniversary logo have to include the words "**QP**" and "**20**".
- Entries must be presented in A4 (210mm x 297mm) document size, in vector PDF format with 300 dpi output resolution. Both colour and black/white versions must be included on the same page.
- Include a brief description (no more than 300 words, either in Chinese or English) illustrating the design concept.
- Each person may submit more than one entry.

SELECTION CRITERIA

Originality ▪ Aesthetic quality ▪ Creativity ▪ Scalability ▪ Reproducibility

AWARDS AND PRIZES

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