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DRIVING BUSINESS SUCCESS

Issue 4 Volume 16 April 2020

PLUS:

CRISIS MANAGEMENT

The importance of contingency planning in uncertain times

PROFILE

Fiona Nott, Chief Executive Officer of The Women's Foundation

SECOND OPINIONS

How should businesses communicate throughout the COVID-19 crisis?

REMOVING THE SHIELD

A close look at the evolving global discussion on the accounting for business acquisitions and goodwill

CPA

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Certified Public Accountants
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CPA

"With an uncertain recovery process, the Institute remains committed to preparing for the future, and ensuring our members' success."

Dear members,

I would like to begin by congratulating the new bureau secretaries recently appointed by the central government. The Institute has long had a very good working relationship with the Financial Services and the Treasury Bureau (FSTB) and we look forward to continuing this with the new Secretary Christopher Hui Ching Yu.

One area we had been interacting with the FSTB recently on was the reporting deadline of 31 March for listed issuers with 31 December year-ends. I would like to thank the FSTB, the Securities and Futures Commission and the Hong Kong Exchanges and Clearing Limited (HKEX) for their support, including the guidance issued, in this regard.

Due to the hard work of the issuers' finance teams, and their auditors, almost all of the 1,792 issuers published financial data, and the vast majority (1,399) published their preliminary results announcement with auditors' agreement and a further 314 published results without auditors' agreement. Indeed, just five did not report any financial data due to COVID-19.

We are now focusing on 31 March year-end issuers, with the HKEX having recently issued guidance that includes relief measures similar to those announced in February and March for these entities.

Although hard work is the usual practice during the reporting season, this year has required the preparers and practitioners to work in different manners to normal, due to travel restrictions and other difficulties.

In fact, the COVID-19 outbreak has really forced all of us – and particularly the accounting practices – to review our operation routines, move out of our own comfort zones and significantly change the usual ways of conducting our work. I'm impressed by how staff have been able to meet output deadlines over the last few months through no traveling, working from home and flexi-hours, greater adoption of cloud-based technologies, using new portals to exchange and share information, teleconferencing and more. This precious experience shows us that we can remodel and fine-tune our entire modes of operation when the pandemic is over.

This will hopefully provide the imperative to address some of the long-standing concerns within the profession, particularly around long working hours, significant traveling and work-life balance – and to better prepare the profession for the future. Change isn't easy, but when it has been forced upon us, we've responded. I hope there will be some lasting improvements from this crisis.

The government has announced two rounds of relief measures as part of its Anti-epidemic Fund, alongside those announced in the 2020/21 budget. Some of the new measures may be of interest to members, such as the Employment Support Scheme, the Enhancement to SME Financing Guarantee Scheme, and the Distance Business Programme. To help members find relevant details, the Institute has launched a new webpage, under the COVID-19 – CPA Information Centre, with links and other useful information on the schemes. The page will be updated as more of the schemes are implemented. Please do check it out.

Although Hong Kong has again recently been recording a low number of new daily COVID-19 cases, the disruption will continue globally over the next few months. As many of Hong Kong's industries are engaged in cross-border businesses or are reliant on tourism, they too will remain disrupted. For the Institute, this continued disruption includes cancelling the June examination session, including for the Qualification Programme. While this may be of disappointment to some students and members, the well-being of all involved is our priority.

Helping our members is always the Institute's top objective. Despite our reserves and cash positions having significantly dwindled – particularly due to the membership fee waivers for the last two years and the cancellation of the June examination session – the management is trying hard to contain costs and find ways to give further concessions to members. I look forward to discussing the proposals at Council in due course.

It's hard to believe that it's been over three months since the beginning of the COVID-19 pandemic. With an uncertain recovery process, the Institute remains committed to preparing for the future, and ensuring our members' success. We have had a few days of very hot weather in late April, my mind turned to summer. Who knows what this summer holds, with no certainty that last year's social disruption is behind us. Whatever happens, this summer is sure to be different to a typical one. The holidays, barbeques, hiking and trips to the beach with family and friends will be affected. But the outbreak has shown how accountants are resilient and have an ability to adjust, improve, and overcome.

Johnson Kong
President

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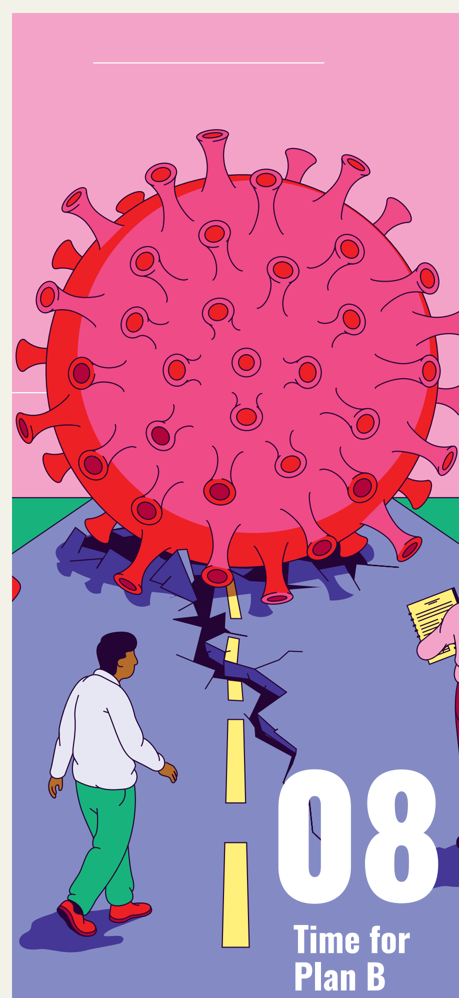

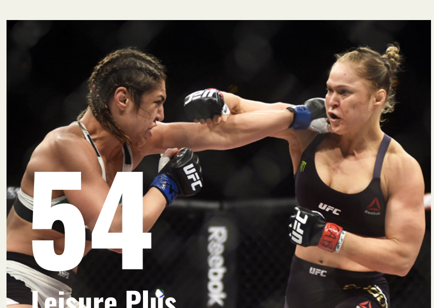

A+ DRIVING BUSINESS SUCCESS

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

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NEWS

Institute news Business news

Quality Assurance 2019 Annual Report now available

The Institute released its *Quality Assurance 2019 Annual Report* this month. The report summarizes the work and practice review outcomes of the Quality Assurance Department, as well as the changes introduced to its practice review and professional standards monitoring programmes last year.

In 2019, the department carried out 354 practice reviews of practice units with audit clients, an increase of 15 percent from 2018. The Practice Review Committee considered 374 practice review reports in 2019. The percentage of directly closed cases had improved slightly from 61 percent to 65 percent. However, the number of complaints or referrals to the Financial Reporting Council (FRC) cases increased to 18, including 9 cases relating to practices with listed clients.

Quality Assurance 2019 Annual Report

"Despite the FRC having taken on the regulations of listed company audits, we see benefits in continuing to carrying on the professional standards monitoring function. The function has been in existence for more than 30 years and is useful for the Institute's post-implementation review of professional standards," wrote Elsa Ho, the Institute's Director of Quality Assurance. "Accordingly, we will retain this programme and continue to refer non-compliance matters identified under this programme to the FRC in future."

New webpage on government relief measures

The Institute has created a new webpage to inform members about some of the measures introduced by the Hong Kong government to mitigate the effects of the COVID-19 pandemic on various sectors and residents. The webpage contains information and links related to relief measures under the Anti-Epidemic Fund and the measures included in the 2020-21 budget. It can be found in the "COVID-19 – CPA Information Centre" section of the Institute's website.

June 2020 exams cancelled amid COVID-19 concerns

The Institute announced this month that the June 2020 examination session has been cancelled, after monitoring the developments of the COVID-19 pandemic. This covers all professional examinations, namely the Qualification Programme, Practising Certificate Examinations, and the Aptitude Tests. The decision was taken to prioritize the health and well-being of the Institute's students and the community-at-large. The Institute also took into consideration the business conditions of member firms and their workloads. The next examination session will be December 2020. Further details will be announced closer to the start of the enrolment period.

Institute to hold almost 15 webinars in May

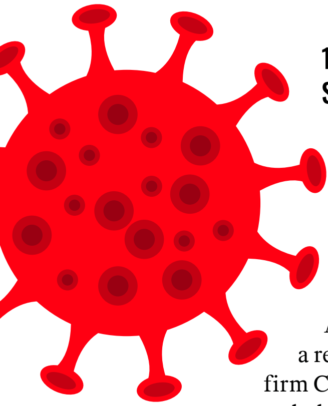
To help members access the training they need, the Institute will hold almost 15 webinars in May covering a wide range of topics. Check them out on the HKICPA Events app or the event calendar on the Institute's website.

Webinars now part of Support Programme

Webinars are now part of the Institute's Support Programme for members who are unemployed or planning to rejoin the workforce, in light of the continuing replacement of face-to-face events with webinars. The Support Programme offers 5 percent of webinar enrolments free-of-charge to eligible members.

Council meeting minutes

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



15 PERCENT OF HONG KONG EXECUTIVES SEE PAY CUTS AMID PANDEMIC

A survey of 140 companies in Hong Kong found that 15 percent of them had reduced base salaries for executives since the coronavirus began affecting the city's economy. This is according to *Executive Pay and Cost Containment Measures for COVID-19 in Hong Kong*, a report released on 23 April by consulting firm Comptify Analytics. Of the companies surveyed, the study noted that 70 percent of the Hong Kong-based executives received a pay cut between 20 to 30 percent. The logistics and supply chains industries were found to be affected the most, with the study noting that 83 percent of companies have implemented pay cuts or furloughed employees to control costs.

U.K. BIG FOUR PARTNERS PAID UP TO 25 PERCENT LESS AMID CORONAVIRUS

The accounting industry in the United Kingdom has plunged into its worst crisis in a decade, with the Big Four cutting their partners' pay by up to a quarter and mid-tier firms furloughing junior staff to build up cash reserves and cope with the impact of the coronavirus. The roughly 74,000 partners across the U.K.'s Big Four earned an average of £720,000 (HK$6.9 million) last year and are involved in company audits, tax and restructuring advice and consulting on transactions. PwC U.K. has deferred all staff appraisals to autumn and Deloitte U.K. is offering the option of reduced working hours for its staff, while maintaining a larger proportion of their salary.

1 IN 4

U.S. CFOS EXPECT LAYOFFS AMID CORONAVIRUS

More than a quarter of chief financial officers in the United States foresee layoffs at their organizations because of the coronavirus pandemic, according to a survey by PwC. The firm polled 313 U.S. companies and found that twice as many CFOs anticipate redundancies at their workplace compared with two weeks before the study, with 26 percent expecting layoffs. It found that the pandemic is now the top concern for CFOs, with more than three quarters citing the pandemic's effect on operations and liquidity. Few CFOs believe their company will return to "business as usual" within a quarter, even if the coronavirus were to disappear immediately.

FASB TO DELAY TWO STANDARDS DUE TO CORONAVIRUS

The Financial Accounting Standards Board in the United States issued the *Proposed Accounting Standards Update* on 21 April, indicating that it would impose a one-year delay in the implementation of the leases and revenue recognition standards due to the impact of COVID-19. The lease accounting standard would be effective for private companies and non-profits for fiscal years beginning after 15 December 2020 and interim periods within fiscal years beginning after 15 December 2021. The proposed effective date deferral for revenue recognition would be limited to private company franchisors. Those stakeholders would have the option to apply the new standard for annual reporting periods starting after 15 December 2019, and interim reporting periods within annual reporting periods starting after 15 December 2020.

FRANCE TO BLOCK COMPANIES IN TAX HAVENS FROM STATE AID

France will block companies registered in offshore tax havens from claiming aid from its government coronavirus bailout, following similar moves by Denmark and Poland. Denmark announced its measures only three days earlier. France's Finance Minister Bruno Le Maire announced on 23 April that companies either registered or controlling subsidies in tax havens are not entitled to receive any share of the relief package. The rescue package increased by €45 billion to €110 billion on 15 April to support the economy hit by the coronavirus. "It goes without saying that if a company has its tax headquarters or subsidiaries in a tax haven, I want to say with great force, it will not be able to benefit from state financial aid. There are rules that must be followed," said Le Maire.

HONG KONG SMES STILL NOT HAPPY WITH CORONAVIRUS LOANS

Hong Kong's small- and medium-sized enterprises (SMEs) are to receive loans of up to HK$4 million under a new scheme set up by the Hong Kong government to mitigate the economic impact of the COVID-19 pandemic. Starting from 20 April, the Hong Kong government will guarantee 100 percent of loans of up to HK$4 million made to SMEs at low interest rates, but will require company directors to provide a personal guarantee. However, more than 60 percent of SMEs are dissatisfied with the government's support measures, with 40 percent hoping for a grant scheme instead of a loan scheme, according to a survey by the British Chamber of Commerce. The coronavirus pandemic has seen the city's unemployment rate hit a high of 4.2 percent, while banks have approved more than 9,000 applications for loans and other relief measures worth HK$57 billion to help companies pull through the pandemic.

PAYPAL AUSTRALIA FACES MATERIAL LOSS FOLLOWING EXTERNAL AUDIT

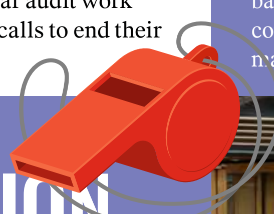
PayPal Australia has warned that the company could take a financial hit following the completion of an external audit into the company's compliance with financial crime laws. Australian Transaction Reports and Analysis Centre (AUSTRAC), Australia's financial intelligence and regulatory agency, was appointed in September 2019 to examine PayPal's compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006. AUSTRAC was granted an audit extension on 27 February following a request from PayPal, reflecting the size and complexity of PayPal Australia and the company's international business operations. It is due to issue a final report at the end of August.

KPMG U.K. FINED MORE THAN £450,000 FOR AUDIT FAILINGS

KPMG in the United Kingdom and one of its senior partners have been reprimanded, and the firm fined £455,000 (HK$4.3 million), due to deficiencies during an audit of a U.K. company. The partner was fined £29,250 and will have three of her audits subject to a quality performance review by the firm. She is also required to undergo further training, according to a statement by the Financial Reporting Council (FRC) on 2 April. The FRC noted that the firm failed to "apply sufficient professional scepticism, or to obtain and document sufficient appropriate audit evidence in part of their checks." The fine is the latest sanction against the firm in recent years. KPMG and the other Big Four firms in the U.K. have faced scrutiny by regulators after instances of subpar audit work have come to light, leading to parliamentary calls to end their dominance by splitting them up.

CHINESE DRUG COMPANY'S IPO IS 639 TIMES OVERSUBSCRIBED

Akesobio, a Chinese cancer drug developer, saw its HK$2.58 billion initial public offering in Hong Kong oversubscribed 639 times, making it the most popular biotechnology listing among the city's retail investors. The Zhongshan-based company's offer of 15.95 million shares in the city, a tenth of its global shares offering, saw HK$166.5 billion in investors' funds locked up when the offer closed on 17 April. It is also Hong Kong's largest listing so far this year, following Beijing-based Pharmaron's HK$5.3 billion listing last November. The company aims to complete the trials and apply for approval to market them in the second half of 2020.



EY TO PAY US$11 MILLION TO WHISTLEBLOWING AUDITOR

A British court has ordered EY in the United Kingdom to pay US$10.8 million to a former partner who blew the whistle on suspected money laundering at a major gold refinery in the United Arab Emirates. Amjab Rihan, a former EY partner, claimed he was let go after raising concerns about an audit of Dubai's biggest gold refiner Kaloti in 2013. Rihan told the court that the firm tried to suppress a report that identified multiple problems at the refiner, including allegations about the importation of gold from Morocco that had been coated with silver to avoid export restrictions. EY insisted it had acted properly in reporting the actions of the auditor and that the judge created "an unprecedented legal duty."

CHRISTIE'S ORDERED TO PAY MORE THAN US$16 MILLION FOR TAX EVASION

Christie's, the London-based auction house, agreed to pay US$16.7 million to settle allegations that it had failed to properly collect sales taxes in New York from 2013 to 2017. The settlement, announced on 9 April by the Manhattan District Attorney's (DA) office, follows a lengthy investigation into how Christie's and its affiliate companies in Amsterdam, Dubai and Hong Kong failed to collect sales taxes on works sold by foreign offices but delivered to clients in New York. The DA says Christie's attempted to consolidate its international private sales operations in a division operated out of London following flawed tax advice that it would not need to collect New York tax on sales to New York clients as a result.

TIME FOR PLAN B

The coronavirus pandemic highlights the importance of proactive contingency planning and crisis management for companies. Nicky Burridge finds out the best ways to craft a contingency plan and what businesses can do to remain agile amid the harsh realities of a crisis

Illustrations by Harry Haysom

In February, employees from Jaguar Land Rover, the United Kingdom's largest car manufacturer, flew back from Mainland China with suitcases full of Chinese-made car parts. Even with this action, the group, which produces nearly 400,000 vehicles a year in its three U.K. factories, warned it was at risk of running out of parts in just two weeks due to the disruption the coronavirus outbreak had caused to its supply chains. Ralf Speth, Chief Executive Officer of Jaguar Land Rover, said at the time: "We are safe for this week and we are safe for next week and in the third week… we have parts missing."

From broken supply chains to falling consumer demand to staff being prevented from going into the office, businesses around the world are being impacted by the coronavirus pandemic. The World Economic Forum has estimated that a short-lived outbreak could lead to a 3 percent contraction in global gross domestic product in 2020. Meanwhile, with travel restrictions and social-distancing measures expected to remain in place for many months, economists are predicting rising levels of corporate layoffs and bankruptcies throughout the year.

The pandemic has highlighted the importance of contingency planning and crisis management for companies, and the consequences of not being prepared.

Even before the current outbreak, a host of issues, ranging from climate change to geopolitical tensions, were creating increased risks to companies' business plans. John Donker, Partner, Forensic Services, at PwC, says managing a crisis is now a fact of business life. In PwC's *Global Crisis Survey 2019*, conducted well before the current situation, 69 percent of participants reported having experienced at least one crisis in the past five years, with 95 percent anticipating facing one in the future. "Whether it is a global event or a more isolated one, like a cyber-attack or social media attack, the risk is there and how a business is able to deal with and emerge from a crisis is directly related to how well it's prepared," Donker says.

Christopher Arnold, Head of Small and Medium Enterprises/Small and Medium Practices (SMEs/SMPs) and Research at the International Federation of Accountants (IFAC), agrees: "In these unprecedented and uncertain times, it is more critical than ever for all organizations, including SMEs and SMPs, to focus on crisis and risk management, as well as business continuity planning."

Rani Kamaruddin, Partner, AML and Sanctions Regulatory Compliance, at KPMG China, points out: "Most companies have contingency plans for short-term disruptions, such as typhoons or serious flooding, however, these plans may not be adequate in the face of a challenge that may be larger in scale or more severe by its nature, such as the COVID-19 outbreak."

Failing to have a contingency plan in place can have wide-ranging implications for a company. Matthew Li, Founder of NOVA CPA and a Hong Kong Institute of CPAs member, points out that potential impacts include everything from lost revenue and loss of corporate reputation, to human resources (HR) problems, potential health and safety liabilities and even higher insurance premiums in the future.

"Incorporating these elements is the best way of ensuring a resilient business model."

How integrated reporting mitigates crises

Integrated reporting can help companies build sustainable business models that are better able to mitigate crises. The practice, which began after the global financial crisis, aims to help companies recognize values and risks beyond just the financial.

Jonathan Labrey, Chief Strategy Officer at the International Integrated Reporting Council (IIRC), explains: "If companies are only managing their financial resources and are only accountable for their financial results, they are missing out on a lot of potential value in terms of human capital, intellectual capital and other types of value that go into building a sustainable business."

He adds that at the same time, companies also need to recognize things that were previously considered to be non-financial risks, such as climate change, over the short, medium and long term, as these issues now pose a risk to a business' financials. "It is no longer satisfactory to separate financial and non-financial issues," Labrey says.

Integrated reporting also aims to bring an end to siloed thinking and decision-making within companies, and instead connect different teams and information within an organization to promote integrated thinking.

The IIRC has developed a framework that helps companies recognize different types of capital and navigate different risks over different horizons to create sustainable long-term value. "Incorporating these elements is the best way of ensuring a resilient business model that helps companies orientate through really challenging times, like the one we are going through at the moment," he says.

Integrated reporting can also be a powerful tool for companies in their contingency planning as it highlights the various challenges they may face in the future. "It provides insight and foresight that is really helpful as a governance tool that should help to support businesses doing their contingency planning," Labrey says.

He adds that companies have often adopted integrated reporting in the aftermath of crises, and he expects to see increased take up of the practice as companies navigate their way out of the current situation. "We hope our framework can be a useful tool in helping businesses navigate what are going to be uncertain and difficult times that are coming down the track, even as we start to recover from the current crisis."

Creating a contingency plan

Agnes Chan, Managing Partner, Hong Kong and Macau, at EY and an Institute member, describes a contingency plan as being a blueprint for an organization to deal with an unusual event and enable it to return to its usual business operations as soon as possible. She suggests that a key first step in contingency planning is to create a cross-function crisis management team. This should include the company's head, as well as representatives from frontline professionals, legal, IT, HR and corporate communications departments, and office administration.

Edward Au, Southern Region Managing Partner of Deloitte China, says that in order to respond to incidents rapidly and effectively, and to minimize the impact on the business, companies should set out the tasks, roles and responsibilities of key players, such as people in HR, marketing and finance, in their contingency plan. He adds that the most successful plans contain a number of core elements, including launching and sustaining a crisis command centre, supporting talent and strategy, maintaining business continuity and financing, and shoring up the supply chain, as well as staying engaged with customers and the business ecosystem, and strengthening digital capabilities.

Kamaruddin suggests companies should also plan for alternative work arrangements, such as having a second site where critical business activities can continue to be performed to limit disruption to the business. She adds that in the current situation, some companies have had to rent additional office space to ensure they can maintain distancing measures among staff. "Plans should also include measures to ensure timely and accurate communication with employees, customers and third parties, such as vendors and suppliers, to reassure them that you will stand shoulder-to-shoulder with them during these challenging times," she says.

Arnold at IFAC suggests SMEs and SMPs base their continuity plans on a PPRR framework, covering the four elements of prevention, preparedness, response and recovery to ensure minimal disruption to the company's operations. He says companies should consider factors such as what supplies are critical to keep the business operating and how they will be obtained if global supply chains are disrupted, as well as closely monitoring cashflow on a daily and weekly basis. IFAC's *Guide to Practice Management for SMPs* includes a module on risk management, which covers business continuity planning and disaster recovery.

"The key to business continuity planning and disaster recovery is to look at it as an entire function and document the various components in one plan," Arnold says. "It can include an emergency pack, that has documents, such as a list of employees with contact details, a list of customer and supplier details, financial and banking information, and insurance company details. It may include equipment such as back-up hard drives and security codes."

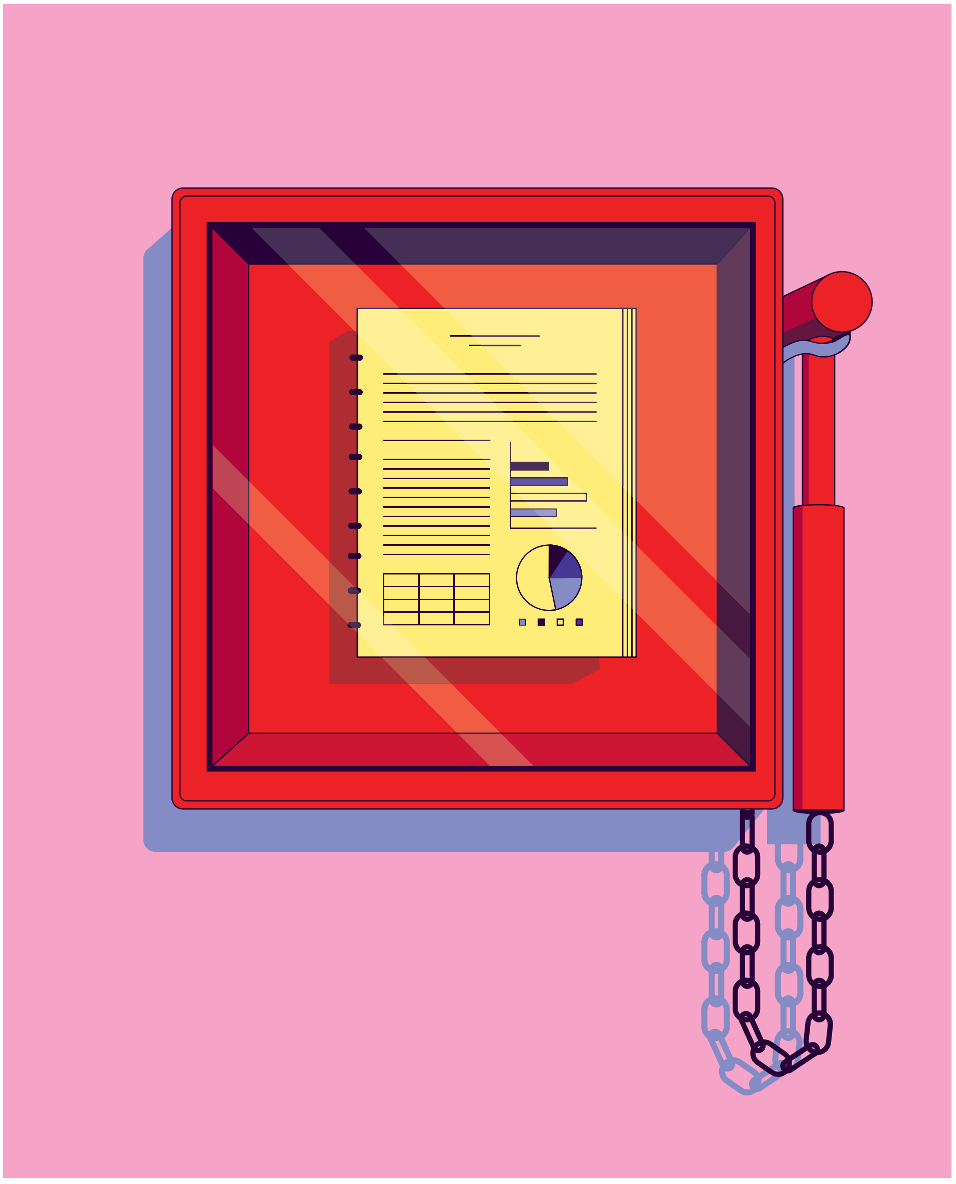
He adds that a procedures manual, which fully documents the processes and operations, should be prepared and the whole emergency pack should be stored safely and securely, possibly off-site.

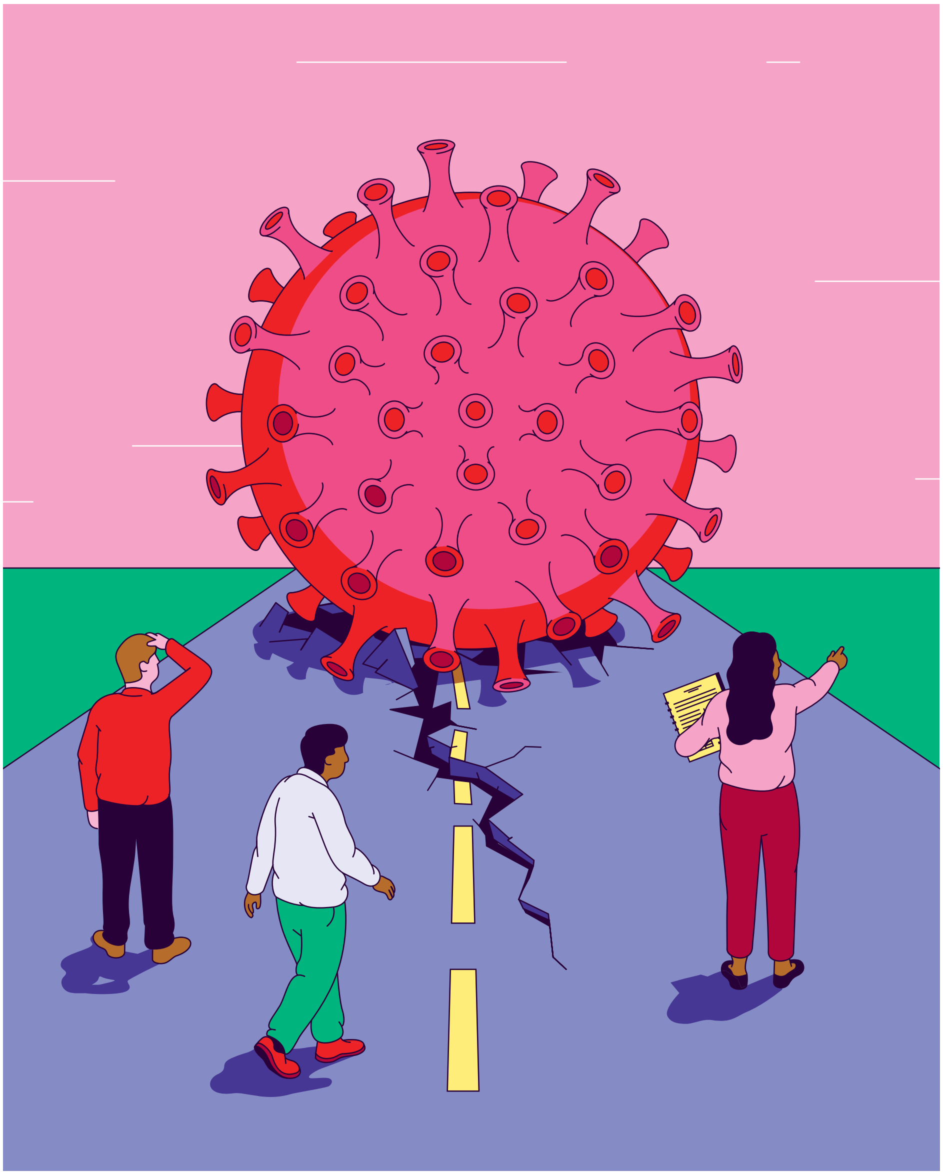
When creating his company's own contingency plan and advising clients on theirs, Li at NOVA CPA says it was important to look at the company's IT infrastructure, including back-up and recovery systems. "If your IT staff is unable to physically manage your data centre, your company might have trouble responding to the current crisis. That is where cloud-based, fully automated disaster recovery services come in," he says.

Indeed, having access to data is important in helping companies prepare for uncertainties and respond to crises, according to Terry Smagh, Senior Vice President and General Manager, Asia Pacific and Japan, at enterprise software company Blackline. "Data is power and those organizations that can access and communicate reliable information will be best prepared, even identifying issues before they become crises," he says. "Finance teams need to have access to key performance indicators and financial metrics, both actuals and forecasts. By organizing such information into dashboards, leaders can make quick assessments and even faster decisions."

The risks businesses face are constantly evolving, so contingency planning should not be seen as a one-off exercise that can be put to one side once completed. Instead,

"Plans should also include measures to ensure timely and accurate communication with employees, customers and third parties, such as vendors and suppliers, to reassure them that you will stand shoulder-to-shoulder with them during these challenging times."





Arnold says companies' plans and approach will need to be regularly reviewed, and in the current environment, they may have to do this on a daily basis.

Contingency plans should also be tested before they are needed. Donker at PwC says: "Stress-testing the plan with simulations before a crisis hits gives a company the chance to iron out any issues."

Mastering flexible working

In the current crisis, introducing flexible working has been a key element of many companies' contingency plans. Chan, who oversees EY's cross-functional crisis management team, says EY's first priority in response to the coronavirus outbreak was safeguarding the well-being of its employees. As a result, it introduced flexible working arrangements in January, including working-from-home and having team rotations in its offices to enable it to continue to operate as usual while safeguarding staff.

Li at NOVA CPA suggests companies should get input from all parts of their organization when setting up home-working to help ensure the transition is smooth, with policies put in writing so that employees have clear guidelines. "Set goals and establish guidelines to help remote workers know what is expected of them so they can successfully meet their deadlines," he says.

But having staff working outside of a company's IT network and infrastructure creates access and security challenges. As a result, Donker says companies must ensure employees have the technology to be able to work remotely and securely, including having laptops and the means to connect to the company's systems using virtual private networks (VPN). He adds that companies should also stress-test the bandwidth of their VPNs to ensure there is sufficient capacity for all of their critical employees to access it at the same time.

It is also important when using new tools for collaboration, such as third-party apps, to focus on data security and confidentiality. "Some tools are advanced in technology and user experience but have relatively poor security capabilities, which may lead to potential data leakage. It is also important to check whether cross-border data transfer is allowed when sending information, such as personal information, to parties in other countries," Au at Deloitte says.

Kamaruddin at KPMG suggests cloud-based solutions should be incorporated into a company's overall business contingency plan. "Establishing cloud offices enables more effective cooperation and remote desktop access could be a solution to enable the continuation of working from home," she says.

Aside from the technology, human elements also need to be considered, with a culture of trust and respect created between employers and their staff, Donker at PwC stresses. "Working remotely and without the interaction with fellow employees can, for some, be a lonely and isolating experience, especially if the cause of the crisis is, in itself something as worrying as a health crisis," he says. "We would recommend that employers should put in place support mechanisms to ensure employees stay connected to teams, and promote a sense of belonging to the organization."

Arnold at IFAC agrees: "Management needs to recognize the disruption caused will impact employees in different ways, for example the balance of work and home-life, especially with those with children. A flexible approach is vital."

The role of CFOs and CPAs

The top priority for chief financial officers in these circumstances should be conducting a financial stress-test and keep expenses in check. "If the impact is material and former budget assumptions and business plans are no longer relevant, CFOs should remain agile and revise them," says Chan.

Au suggests CFOs should also review their company's existing debt and credit facilities to ensure they have cash available. "Most importantly, the CFO should also evaluate the state of resources available to the company and set up a plan to reduce cash outflows quickly to save cash while the company is recovering from a loss," he says.

Li adds that CFOs should create a short-term cash flow monitoring system to predict cash flow issues and monitor liquidity risks. "They will also want to keep a strict eye on working capital, especially as it relates to collecting receivables and managing inventory build-up," he says. He points out that companies will also need to monitor direct cost escalations and how these impact

> **"CPAs who are able to extract real-time insight, instead of months-old data, will enable leadership to pivot quickly to meet customer and stakeholder demands and respond effectively during challenging times."**

their overall product margins. In some cases, it might be necessary to act quickly and renegotiate new terms with suppliers or customers.

CFOs will also need to assess any potential losses they will incur as a result of a crisis situation, such as if they have had to cancel live events that were forecast to generate leads and revenue, and work out how they can fill this void.

CPAs in general have an important role to play in helping their clients plan for a crisis. They can help companies develop, assess and test their contingency plans, including running simulations within the business, leveraging on their intimate knowledge of the interdependencies of a company's business operations. Chan points out that CPAs can help organizations to formulate corresponding risk management strategies, and perform risk identification and analysis according to different scenarios – all integral parts of creating a contingency plan.

CPAs can also help companies stress-test their financial plans for the next one to three years, considering multiple different scenarios, according to Li. He adds that when experiencing a crisis, companies may need help revising their business plans or budgets to remain agile, as well as reviewing operating costs to try to reduce any non-essential expenses.

Smagh at Blackline says CPAs can help their clients by providing real-time visibility and analysis of their financial assets and resources. "CPAs who are able to extract real-time insight, instead of months-old data, will enable leadership to pivot quickly to meet customer and stakeholder demands and respond effectively during challenging times," he says. Smagh adds that having access to information can help assess the viability of alternative measures or calculate a company's exposure, both internally and externally, to various issues, helping an organization determine the best way forward.

Arnold points out that SMPs already have an extensive understanding of their clients' business operations, putting them in an ideal position to provide assistance in a crisis.

In some cases, he suggests CPAs may be able to advise clients on new business models, such as helping a restaurant offer takeaway services, including managing online payments and deliveries, while for others that have to close completely during lockdown, they can help access government support, renegotiate payments with suppliers or creditors and look at what assets could be sold to raise cash.

"The COVID-19 crisis will likely change the course of history," Arnold says. "The uncertain and unpredictable environment provides an opportunity for professional accountants to elevate their role as the strategic, trusted, business adviser."

In PwC's *Global Crisis Survey 2019*, 69 percent of participants reported having experienced at least one crisis in the past five years, with 95 percent anticipating facing one in the future.

SECOND OPINIONS: HOW SHOULD BUSINESSES COMMUNICATE THROUGHOUT THE COVID-19 CRISIS?

EWAN CLARKSON
HUMAN CAPITAL PARTNER,
PWC MAINLAND CHINA AND HONG KONG

The COVID-19 crisis has radically changed the day-to-day lives of many – both professionally and personally. For many companies, "business as usual" has been replaced with "business survival," as companies plan to stay ahead of the crisis. At PwC China our crisis-response efforts meant quickly setting up an emergency committee to ensure a proactive "one voice" response, with our highest priority being the health, safety and wellness of our people. We remain focused on supporting our people, clients and communities to tackle the unprecedented challenges. Some critical points at the heart of our communications included:

Purpose-led and values-driven: As a purpose-led and values-driven organization, we focus on "building trust in society and solving important problems." At PwC, the firm's purpose is guided by our values: acting with integrity, care, working together, making a difference, and reimagining the possible. These act as a guiding post for our actions and communications.

Communicate, engage, advocate: Clear, consistent and regular communication with people at every level within the organization is important to ease anxieties. At PwC, we actively communicate with clients who are also experiencing the same challenges, and publish thought leadership to better inform stakeholders and the community.

Speed and agility trumps perfection: In this time of high uncertainty, insecurity, and misinformation worldwide, staying proactive and responding quickly is essential to building trust and confidence. Move quickly, focus on facts and concrete insights rather than on unverified news or social media rumours. Offer reliable resources that inform and protect people, business and clients.

Trust your people – foster a flexible culture: In early 2019 we introduced "WeFlex," in the spirit of providing flexible working arrangements. The scheme allows our people the flexibility to choose where and how they work provided that it works for our clients, their team and the individual. With WeFlex already in place when the crisis emerged, it enabled almost 20,000 of our people to work remotely on the principles of trust, connectivity, and quality delivery.

Empower people to lead without title: While the team leader is important, now is an opportunity for everyone to step up and demonstrate leadership at all levels with a single unifying purpose.

A crisis impacts different people in different ways: Be sensitive to the impact the crisis has on different people and the different pressures being faced, whether they are supported by family, with children or alone, we focused on health and well-being, providing support structures through a 24/7 "life coach," to help our people cope with the stress.

At a time of crisis, a "people first" mindset, leadership, communication and agility are essential factors to build a sense of confidence and comfort. At PwC, we have been very fortunate and inspired to have the very best of our people and individual teams come together at the most trying of times.

> **"In this time of high uncertainty, insecurity, and misinformation worldwide, staying proactive and responding quickly is essential to building trust and confidence."**

DR EVA CHAN

CHAIRMAN
HONG KONG INVESTOR RELATIONS ASSOCIATION

During this critical time with all the increased uncertainties prompted by the COVID-19 pandemic, it is essential that listed companies maintain continuous, effective communications with their investors. Timely response to enquiries can enable investors and other stakeholders to make well-informed decisions and minimize the potential impacts on the company's stock price. Furthermore, if listed companies do not respond to the inquiries from stakeholders, negative messages or rumours could arise in the market. It is the responsibility of the listed companies to clarify all false information. Silence can sometimes imply acceptance or agreement of the news.

Investor relation officers (IROs), as the front-line communicator to investors and other stakeholders, should actively inquire into internal and external matters and developments from key personnel (including but not limited to executive directors, head office department heads and general managers of subsidiaries etc.). They should also take a proactive role to advise the board and/or senior executives (e.g. the chief executive officer and chief financial officer) to update the public as soon as practicable by issuing announcements on inside information and other key matters that may have impact on the business and operations of the company.

During this critical situation, IROs should use communication tools that can reach investors instantly. For inside information, announcements should be made through the Hong Kong Stock Exchange's (HKEX) website. Thereafter, they should post the announcement and update information on the company website. Social media platforms like Facebook and WeChat are also effective communication tools.

Last but not least, IROs are reminded to adhere to the legal requirements when responding to inquiries – whether related to the impact of the COVID-19 crisis or not – from investors and other stakeholders by not disclosing inside information unless such information is made available to the public via publishing an announcement.

The Hong Kong Investor Relations Association (HKIRA) communicated with the HKEX and issued a guidance note at the end of February with an overall objective to ensure the investing public continues to receive sufficient information to make informed investment decisions. More details on investor relations best practices can be found in the HKIRA's *Investor Relations Best Practice Guide*, available in both English and Chinese.

"It is the responsibility of the listed companies to clarify all false information. Silence can sometimes imply acceptance or agreement of the news."

ESTHER CHAN

MANAGING DIRECTOR,
STRATEGIC FINANCIAL RELATIONS LIMITED

For businesses, the need to communicate has never been as essential as in the wake of the COVID-19 pandemic. Such need has been particularly pressing for listed companies, as the outbreak period coincided with their statutory obligations to announce yearly results.

"Though the general principles of communication remain true, higher frequency and broader scope of reach have been called for."

While many businesses have been able to contain the impact of the pandemic on their operations, including overcoming challenges in maintaining relations with customers, suppliers and business partners, this has required communications, both internal and external, to be initiated in a prompt and comprehensive manner. Though the general principles of communication remain true, higher frequency and broader scope of reach have been called for. What is more, businesses must now keep abreast of the latest COVID-19 developments, prepare for possible issues that are pertinent to them and their stakeholders, and formulate countermeasures; subsequently reaching out to relevant parties through appropriate channels. Also, to ensure two-way communication, channels for feedback must be kept open and direct. Timeliness, accuracy and consistency – the pillars of effective communication, have never been more crucial.

Perhaps one of the greatest challenges that COVID-19 has created is the sudden ban or limitation on physical communication. While businesses already with online communications platforms have adapted seamlessly to the new conditions, those that were lagging behind soon found themselves scurrying for quick solutions, including the possible need to overcome technical difficulties and play catch-up in areas of information technology-literacy.

The impact of the unprecedented scale of COVID-19 has posed another unique challenge to businesses – the need for constantly evolving contingency plans. The lockdown of cities and countries have hit particularly hard on businesses that operate on a regional scale. Contingency plans must therefore be timely implemented; neither too late, which would result in chaos or even create health threats, nor too early, which might cause confusion or obsolescence of such plans if significant changes occur after their implementation. Communicating within the optimal window of opportunity is therefore paramount.

Legal implications represent yet another critical issue to be wary of, including new rules and regulations imposed by different governments or authorities due to the pandemic – all must be thoroughly reviewed prior and during formulation of communication plans. Businesses that survive the current crisis will undoubtedly become stronger and more communication adept, and will be future-proof in the brighter days to come.

THE FULL PERSPECTIVE

Despite being a global financial centre, Hong Kong lags behind other countries in the region in terms of the number of women in leadership and on company boards. Fiona Nott, Chief Executive Officer at The Women's Foundation, tells Jemelyn Yadao why there is a business case for gender diversity, not just a social one, and the role of CPAs in achieving gender equality

While volunteering in New Delhi for a non-profit focused on girls' education, Fiona Nott saw upfront the gender equality issues that plagued society in India. She returned to Hong Kong inspired by her trip – but with the need to know whether Hong Kong really was any better.

"I think when you work in business in Hong Kong, you have a perception that it is an advanced city and we all see there are many women leaders in business as well as in law and finance. But when you look deep into it, the picture is quite different across the city," says Nott, Chief Executive Officer at The Women's Foundation (TWF). "When I saw the statistics and issues, I was quite shocked and I wanted to give back to the city that had given so much to me."

The big picture shows the city faces a number of challenges. "As of last year, we have one in six women living below the poverty line; we have a very low female workforce participation rate at 55 percent with Singapore, Malaysia, Australia and Mainland China at 60 percent and Japan at 70 percent; we see a majority of women are graduating from university and entering the workforce in increasing numbers, but as they progress throughout their career there's a significant drop off and we have a real drop off of female leaders when we get to management level and certainly at board level. Also, only 13.6 percent of directors at Hang Seng Index company boards are women," says Nott. "And underlining all of that is gender stereotypes and how that leads to these issues."

In terms of gender pay gap, Nott says that Hong Kong currently stands at 22 percent, which is worse than 10 years ago. "That's really concerning. It's linked to the fact that we have a low number of women progressing in their careers and we have a disproportionate number of women in low-paying jobs."

TWF, a Hong Kong-based non-governmental organization (NGO), which was established in 2004, wants to shift those numbers. It seeks to improve the lives of women and girls in the city by focusing on three main goals: challenging gender stereotypes, empowering women in poverty to achieve a better quality of life for themselves and their families, and growing the number of women in decision-making and leadership positions. "The three goals are trying the address the whole ecosystem," says Nott. "How we challenge gender stereotypes and educate people about it is embedded in our programmes, research, advocacy and campaigns."

As part of its work on advancing women leaders, TWF runs its annual flagship mentoring programme, pairing 50 mid-career women with 50 women in senior roles. "We have had over 1,000 women go through the programme," says Nott. The organization also has its Male Allies initiative, which engages with a group of male business leaders who make personal and institutional pledges for action. "We've seen examples of them going back to their own companies and setting up their own male allies initiatives, engaging with their women's network, and going around, talking about diversity and inclusion in their companies," says Nott. Gender equality is not just a women's issue, she adds. "We cannot improve the lives of women and girls, without engaging men and boys. In particular, we need to engage men as key agents of change."

The organization is currently planning to do more to engage with boys. "We are conducting a piece of research around young men and their attitude towards gender. We plan to build out a programme in that regard," Nott explains. "When you look at gender stereotypes and the way we all grow up with those, they're formed at a young age for girls and boys. The reason we want to start with young people is to build confidence in understanding and discussing gender equality and gender stereotypes."

Gender equality in crisis

With the current COVID-19 pandemic, there is more to be concerned about. Nott is deeply disturbed by how the social implications of the pandemic are

"For women who are working at home and have to do their work and bear those caring responsibilities or household duties, it's a double or triple whammy."

disproportionately affecting women, and worsening gender inequalities. She notes that the burdens of care work during this time are falling more on women.

"First of all, the frontline healthcare workers who are continuously fighting COVID-19, the majority of them are women. These are dangerous jobs right now and they don't have the luxury of working from home. Lower paid jobs such as cleaners are also not able to work from home, and women make up most of them," she says. "Then we have the other issue around caring responsibilities such as childcare and eldercare, which disproportionately fall to women and are certainly exacerbated by COVID-19 because elderly homes and childcare options are not available. For women who are working at home and have to do their work and bear those caring responsibilities or household duties, it's a double or triple whammy."

The day before talking to *A Plus*, Nott published a blog post on TWF's website highlighting the global surge of domestic violence cases as a result of the coronavirus outbreak. "A lot of people are stuck at home with really stressful and difficult situations, and we are seeing that rise globally. We are really concerned about that in Hong Kong, and we know domestic and sexual violence hotlines have seen a 25 to 30 percent increase in calls over the past few months," she says.

TWF has urged the government to make prevention of domestic violence, and support for victims, a key part of the COVID-19 response. "We also urge individuals and workplaces to be aware that it's a problem, and for employers to have policies and practices around domestic violence, share resources and look out for people if they need help."

The flex-work experiment

Around 30 percent of women in Hong Kong drop out of the workforce because of caring responsibilities, according to a survey by the Women's Commission. Nott puts part of the blame on the city's lack of flexible work arrangements. "The challenge that we have in Hong Kong is that flexible working is not really an option across the board, and we do work some of the longest working hours in the world," she says.

However, with companies being forced by COVID-19 to implement work from home arrangements, Nott believes the private sector will likely see a growing openness to flexible work practices post-crisis. "As we come out of this, there will be a real conversation on the advantages and challenges of flexible working. I think the debate previously was around how it means simply working from home or having technology solutions for people to do it. Now, we're hopefully moving towards a better debate about how to make flex work be fit for purpose for a company and for the employee. With the issues about isolation or how to make sure teams work closely together when they're at home, people are addressing that right now in the current situation," says Nott.

She believes companies that adopt flexible working practices could help more women reach their full potential at work. "We're hoping that after this, there will be conversations about how to build in some of the learnings of COVID-19 into workplaces in the future," she says.

Responding to the assumption that women in Hong Kong who have access to foreign domestic helpers don't need flexible work arrangements, Nott says that is wrong and that the issue is more complex. "For those who do have access to foreign domestic helpers, that's great but why are we not seeing more women in leadership? There are other issues at play that need to be addressed, such as gender biases and gender stereotypes." The idea that childcare is readily available for everyone in Hong Kong is also a myth, she adds. "Foreign domestic helpers support only 11 percent of households in Hong Kong, so we do have issues around childcare."

The business case

Nott believes accountants have a critical role in promoting gender diversity at companies, especially when they stay on top of how it impacts a company's operating model and finance. "Accountants have a key role because they are at the heart of decision-making at companies. There are a lot of business discussions around, for example, diversity. We know companies with more women on their boards and more women in senior management have better returns," she says. "So there's a social case and a business case for diversity, and it's important for accountants to look at the financial considerations and advise companies based on that context and where things are heading." She points to McKinsey's 2018 *Delivering Through Diversity* report, which found that companies in the top quartile for gender diversity on executive teams were 21 percent more likely to outperform on profitability and 27 percent more likely to have better value creation.

Nott believes the growing focus on environmental, social and governance (ESG) in Hong Kong is helping to improve gender diversity. "We're moving in the right direction but we need to do

The Women's Foundation aims to challenge gender stereotypes in Hong Kong through its research and advocacy work. Nott cites a 2018 study conducted by the Equal Opportunities Commission, which found that more than 50 percent of employers in Hong Kong do not want to hire women with children.

more. We feel that gender diversity is a critical element of good corporate governance. You need to have diverse perspectives, diverse opinions in a management team and at board level and a key part of that is gender diversity. We are half of the population and companies that don't have that diversity will miss out on those perspectives," she says. "From the social side of ESG, there is a growing push to understand a company's role in society and its commitment to its stakeholders, and how it treats its employees. It's not just disclosures for disclosures sake but really goes to the heart of what shareholders and stakeholders expect."

She says TWF welcomed the Stock Exchange of Hong Kong's changes to the ESG guide and related listing rules released at the end of last year, which include upgrading the disclosure obligation of all "social" key performance indicators to "comply or explain." "Part of what the exchange was doing was making sure the board of directors has oversight for ESG and could consider those issues right from the top. I think it's a positive thing," says Nott.

> "Part of the challenge for us and the work we do is that there isn't a silver bullet to advance on this issue so you have to play the long game."

Playing the long game

Nott, who grew up in Sydney and in London, has been interested in social justice and equality issues since she was at university in Australia. "I was involved in student politics, I worked for a human rights judge after law school, I worked for a law firm and as part of my time there I had a pro-bono practice to serve marginalized communities. So I've always had this commitment to social justice that I've tried to either bring into my work or take on outside of work," she says.

She was sent to Hong Kong in 1998 for secondment while she worked at a law firm in Sydney. "I was moved here on two-days notice. Six months then nine months later, I was still here," she laughs. After many years working in Hong Kong, she got involved with Room to Read, an NGO focused on girls' education in developing countries. "I helped set up the chapter in Hong Kong then I moved to New Delhi to volunteer in their programme office for Asia, and I got to see gender equality upfront and centre in India and many other counties in Asia. That reignited my passion."

Nott had been active in TWF's community before becoming CEO in 2017. In 2012, she was a mentor in TWF's mentoring programme. "It changed my life," she recalls. "We continue to evolve the programme and it now includes peer mentoring, which is mentoring within the proteges but also mentoring within the mentors as well as one-to-one mentoring." She was also a member of the TWF's Women on Boards Advisory Council.

Her previous experiences working in a range of sectors and senior leadership roles helps her lead her team of 19. "I've been on the board of a start-up company, an entrepreneur, and I've done a lot of policy work in different contexts so that diversity of experience in both large organizations and small organizations, where you don't have a lot of resources, has really prepared me for this broad role."

Apart from gender equality, Nott is also passionate about yoga. "I've been doing that for a number of years. I find it fantastic physically, emotionally and mentally," she says. She does it as a way to recharge, not to achieve work-life balance. "I don't think anyone has found that pure balance. To me, it's how you integrate all of these elements of life and work. My balance is actually my work and my work is my balance," she says.

Nott acknowledges how challenging it is to achieve the TWF's three main goals, particularly challenging gender stereotypes that are so ingrained in minds. But one thing she has learned from living and working in Hong Kong for so long, is that change can happen. "As a city, we need to have this on the agenda. That means government, society, companies and individuals making a commitment in their own space to action these issues. Part of the challenge for us and the work we do is that there isn't a silver bullet to advance on this issue so you have to play the long game," she says.

"I remember when I was working in business many years ago, there weren't things like women's networks, there weren't any discussions about women on boards. Now, we have networks and we're talking about women on boards. So when you put it in context and you commit to it, we can create change."

Making sense of disruption – the changing tax policies of Mainland China

The past year has been disruptive, yet transformative, for the economy of Mainland China. This year's China Tax Conference, which will take place online on 23 May, will cover subjects such as transfer pricing, individual income tax and how the COVID-19 pandemic is changing Mainland China's economy

William Chan is Partner at Grant Thornton Tax Services and a member of the Institute. He is Chairman of the Institute's Taxation Faculty Executive Committee and Convenor of its China Tax Subcommittee. He has over 20 years of experience in providing tax services and has worked in the United Kingdom, Hong Kong and Mainland China.

It was an important year for the global economy, with the trade war between the United States and China, continuing throughout 2019, and tit-for-tat tariffs being raised by both countries before a deal was signed in January 2020. The tariffs slowed down exports and the overall growth rate of the Mainland economy. The government determined that it was a good opportunity to refocus the economy, from being export and investment-led, to a more consumer spending-focused economy.

It was therefore also an important year for tax policies in Mainland China. Throughout the year, the government introduced new tax policies and revised others. The year began with a reform of the individual income tax regime, which enhanced taxpayers' involvement in their own tax filing status, increasing the allowances and lowering tax rates for many taxpayers.

There were also new value-added tax (VAT) policies to help implement the decision to re-energize the economy. Rates were reduced, changes were introduced to the export VAT refund regime, VAT recovery was allowed up front for certain immovable property and passenger transport, and the refund arrangement for incremental excess VAT was adjusted.

The country therefore entered 2020 with a very different tax system to the one it had entered 2019 and a still changing economy. But 2020 had its own surprises in store, with the COVID-19 pandemic causing the shutdown of many businesses and government services from Chinese New Year until mid-March. Although the economy is beginning to return to normal, restarting the economy is a slow process. This shutdown has seen tax bureaus stop their work, including investigations into transfer pricing, and focus more on ad hoc support measures for the economy.

The situation is still developing, but businesses operating in the country need to be up to date on the latest developments.

The conference

To find out how the changes in tax policies and the COVID-19 pandemic have affected the Mainland China economy, join the 2020 China Tax Conference. The conference will take place on Saturday, 23 May from 10:00 a.m. – 3:00 p.m. and will be carried out virtually as two separate sessions, morning and afternoon. The conference will feature renowned speakers, including some from the Institute's Taxation Faculty China Tax Subcommittee, sharing their insights on the latest developments in the Mainland.

The speakers will cover four major areas: (i) transfer pricing and anti-avoidance, (ii) individual income tax, (iii) corporate income tax, and (iv) VAT.

With business operations becoming more expensive in the Mainland, multinational enterprises are considering whether to move out of the country. The decision to change operations leads to practical issues that need to be addressed. To help business leaders, there will be a roundtable discussion about tax strategies for business transformation.

Enrol now and learn how to make sense of the disruption to your operations in the Mainland.

"The situation is still developing, but businesses operating in the country need to be up to date on the latest developments."

How companies should account for goodwill arising from mergers and acquisitions has long been scrutinized but, driven by the concerns of stakeholders, the International Accounting Standards Board has recently renewed its focus on goodwill and impairment. Paul Smith looks at some problems with the current accounting method, and how the Institute is playing a role in this global discussion

Illustrations by Gianfranco Bonadies

When Carillion, a British multinational facilities management and construction services company, went into administration in January 2018 it had a goodwill asset of almost £1.6 billion (HK$15.5 billion) on its balance sheet. Yet this was not enough to keep it solvent.

The fact that such a large asset was unable to support the company is illustrative of one of the issues in an ongoing debate within the profession over whether goodwill should continue to be accounted for through the current regime of impairment-only or whether an amortization approach should be returned to. Acquisitions do not always perform in subsequent years as well as management initially expected, yet goodwill from an acquisition often remains on the books indefinitely.

Ultimately, a renewed focus on the accounting of goodwill and better disclosures about how an acquisition performs against management's targets would help investors to hold a company's management to account for its decisions.

What is goodwill?

To understand why a large amount of goodwill was unable to save Carillion, it's important to understand what goodwill is from an economic and an accounting perspective.

Firstly what is a business? A simple question, but one with complex answers – especially when it comes to the accounting treatment. In International Financial Reporting Standard (IFRS) 3 *Business Combinations* (and its Hong Kong equivalent, HKFRS 3), a "business" is defined as "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers [to generate income]." The assets that compose a business can be both physical assets like machinery, buildings, and an assembled workforce, and non-physical assets, called intangible assets. These include patents, business processes and trademarks. Many of these assets can be valued based on market data.

This makes sense, yet when a business is acquired it may go for multiples of its book value – the value of recognized identifiable net assets for accounting purposes. How should payments above the book value be recorded by the acquirer? Is this extra payment an asset itself and how should it be subsequently accounted for?

In accounting, this difference between the acquisition price and the book value of the acquired assets is called "goodwill." This intangible asset is thought to broadly represent the going concern value of the business (that is, a value based on the profits it could have made operating independently) and any expected synergies the acquirer expects when integrating the acquired business into their existing one.

For subsequent accounting purposes, because its carrying value is dependent on existing business operations or equipment, goodwill must be tied to other assets. This means that when a company records goodwill, it must allocate this value to specific parts of the business or sets of assets called cash-generating units (CGUs) in order to test goodwill for impairment.

SETTLING THE STANDARD

"Goodwill is defined as an asset representing future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Because of its calculation, goodwill is really a residual amount, a leftover amount, that cannot be separately identified or directly measured," says Ernest Lee, Technical Partner, Deloitte China and Chairman of the Hong Kong Institute of CPAs' Financial Reporting Standards Committee. "In quite a lot of business combinations, the goodwill amount can be very significant with respect to the total assets and the total equity," he continues.

Changing views

Since 2004, and the introduction of IFRS 3, goodwill has been treated as a historical cost asset subject only to annual impairment testing. This means that unless there is an impairment, often due to a negative unexpected event or a large change in the market or customer preferences, the goodwill will remain on the balance sheet indefinitely.

"How goodwill should be accounted for is a long-term topic of debate," says Michelle Fisher, Deputy Director, Standard Setting at the Institute. "Before IFRS 3 was issued, goodwill was amortized on a systematic basis over its estimated useful life. However, feedback indicated that predicting the useful life of goodwill was difficult and amortization over an arbitrary period does not provide investors with useful information," she says.

"The International Accounting Standards Board (IASB) completed a post-implementation review of IFRS 3 in 2015. The review found that users had significant concerns about the quality of information they were getting about acquisitions and there were also some concerns raised about the accounting for goodwill. This was always controversial," says Tom Scott, Board member of the IASB. He highlights the "too little, too late" issue, where many argue that goodwill impairment happens later than it should have and for a lower amount; the relevance of the impairment information provided in the financial statements; and the cost of the impairment testing model relative to its benefits as the main concerns.

In March this year, the IASB published its discussion paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment*, which discusses possible changes to the accounting treatment of business combinations and goodwill. "The discussion paper outlines the information gathered through the post-implementation review, plus evidence of the approach taken by the United States Financial Accounting Standards Board," Scott says.

The improvements being considered include changes to the disclosures around acquisitions, particularly for larger acquisitions, to enable investors and users of financial statements to better understand the strategic rationale behind investment decisions and the metrics by which acquisitions are monitored. They also include possible changes to the impairment testing regime for goodwill to remove the need for annual impairment testing and amend how value in use is estimated. The discussion paper also describes the arguments for and against amortization of goodwill, and provides the IASB's preliminary view to not reintroduce amortization – a view that was taken by a slim majority of the board.

"Including preliminary views comes from the board's belief that this is a more effective way to communicate, as it creates a better focal point. That said, people should understand that the board has an open mind on all these issues and we will report the received feedback," says Scott.

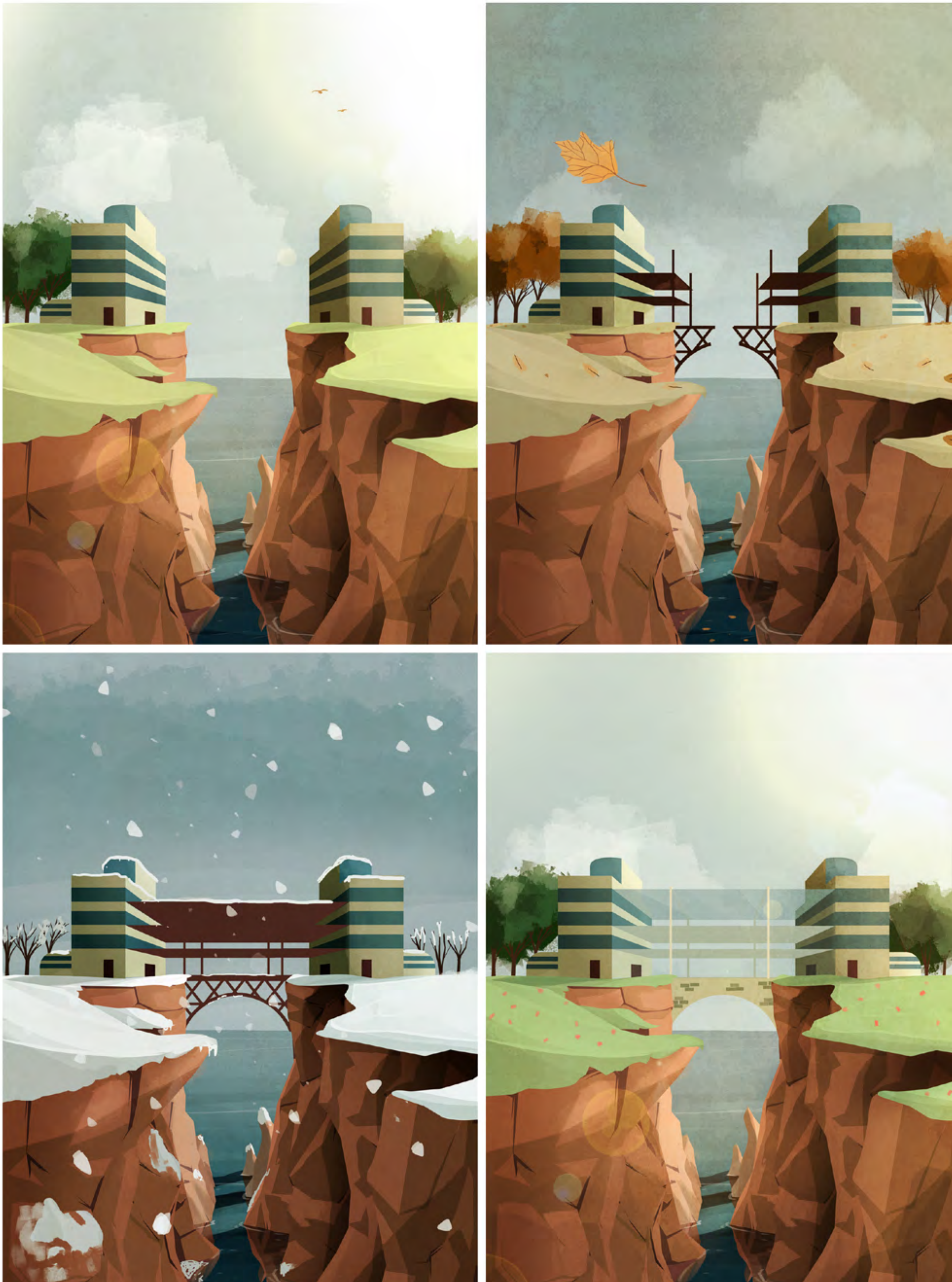
Leading the discussion

The staff of the Institute has published its own research paper on the topic of goodwill in collaboration with the staff of the Accounting Standards Board of Japan (ASBJ). Fisher says that the Institute chose to issue the research paper to coincide with the IASB's discussion paper to provide timely input into the global debate. "We knew the issuance of the discussion paper represented a great opportunity for us to contribute to the international discussions on goodwill and impairment, and help to influence financial reporting in this area. The research paper includes our research and views we were developing internally," she says.

Tiernan Ketchum, Associate Director, Standard Setting at the Institute and one of the research paper's lead authors, explains the arguments set out in the research paper, and how they are backed up by new data. "The paper provides data on the scale of goodwill in listed entities across various jurisdictions. It also goes into detail on the conceptual arguments as to the nature of goodwill and what it represents on the balance sheet, and arguments for why goodwill should be amortized." he says.

For Scott, this sort of research from national standard setters like the Institute and the ASBJ is appreciated by the board. "Standard setters will often undertake research projects on their own or in collaboration with others. This often leads to publishing valuable monographs and papers," he says. In the case of the Institute's new paper it is the combination of the descriptive statistics and analysis that he particularly appreciates. "The paper provides some new information, particularly in how the arguments are laid out, which are more thorough and tied together better, making it more complete."

> "In quite a lot of business combinations, the goodwill amount can be very significant with respect to the total assets and the total equity."



Growing balances

Goodwill balances increased markedly over the years, according to data reported in the research paper. Between 2014 and 2018 total goodwill for surveyed companies increased by an average of 45 percent in the U.S., 26 percent in Europe, 60 percent in Hong Kong and 74 percent in Japan. Based on the data, the research paper concludes that it is likely the "too little, too late" issue exists. The paper also expands on the following.

Firstly, long-standing and increasing goodwill balances can negatively affect the faithful representation of financial statements because goodwill tends to become increasingly less representative of the underlying entity over time. Because goodwill is recognized as a static amount, being the difference between the fair value and book value of an acquisition as of a historical acquisition date, over time as the acquisition is integrated, and the entity and its fair and book value changes, that historical goodwill becomes increasingly meaningless.

Secondly, these goodwill balances may negatively incentivise management and misrepresent risks. From a macro perspective, goodwill accounting tends to be pro-cyclical and results in balance sheets being held up by an increasingly nebulous asset. Goodwill cannot be sold or liquidated, as such, leveraging against it or using it to proceed with corporate actions like dividends can be problematic. Existing goodwill requirements also can incentivise negative management behaviour such as big bath accounting and the overvaluation of acquisitions.

Fisher notes the research paper aims to contribute to the discussion. "The IASB has said it is particularly keen to hear about any new evidence or new arguments to support different accounting approaches for goodwill, we believe our findings will help," she says.

Between 2014 and 2018, total goodwill for surveyed companies increased by an average of 45 percent in the United States, 26 percent in Europe, 60 percent in Hong Kong and 74 percent in Japan, according to the goodwill research paper published by the staff of the Institute in collaboration with the staff of the Accounting Standards Board of Japan.

Shielding

Lee sees some problems with the standards as they are currently written, beyond the issue of "too little, too late." For him, there is another area of concern, that of "too late, and then a lot." He says that there are various reasons for this, but many people argue it's due to the complexity of the impairment test. Sometimes you may not need to impair because the goodwill is shielded by the other assets (both recognized and unrecognized) in the CGU it has been allocated to.

Practitioners must follow standards when undertaking their audits. For the impairment of goodwill, Lee notes that the test is on a residual number on the statement of financial position. Acquired goodwill may be shielded by internally generated goodwill and any other unrecognized headroom in the CGU. "To me, the shielding effect happens because of the mechanics of the standard. This effect makes the impairment of goodwill and the number on the statement of financial position become less meaningful to people," he says.

Lee gives an example. "You may have a company with some headroom that covered a loss in a prior year. But if all of a sudden due to the economic situation, the shield is fully taken down, applying the standard, you end up with a big amount of impairment loss," he says.

An impairment is hard for management as well, he notes. "Impairment is regarded as a failure, particularly early on after an acquisition, such as if an impairment is required within the same year."

For Scott, the issue is that managements' and investors' understanding behind impairment testing is inaccurate. "Even the language around it, people say 'how are you testing goodwill for impairment?' Actually, we're not, we're testing a CGU for impairment,

goodwill is totally integrated into the assets of the CGU," he says. As long as the recoverable amount of the CGU exceeds its carrying amount, goodwill remains. If the recoverable amount of the CGU falls below its carrying amount, goodwill is impaired. Scott notes that this is where goodwill is special, "it's less traceable and a little bit more nebulous. So if a CGU has goodwill, when the CGU's recoverable amount falls below the carrying value, then goodwill takes the brunt of the hit until it is exhausted and then you go and start impairing the rest of the assets," he says.

Some view this as working as intended. "This comes from the view of some people and even some standard setters, who believe fairly strongly that as long as the carrying amount of the CGU is not impaired, they're okay to go with the conclusion that the goodwill is not impaired. These people understand what the impairment test does and they believe that is sufficient to justify it," notes Scott.

A finite life?

For Ketchum, the issue is that the acquired goodwill represents a point in time snapshot of the entity. "This impairment shield issue obscures the reality of goodwill, because what is in the financial statements as an asset arising from a historical acquisition may be shielded by cash flows of a significantly different entity," he says. "Over time, the acquisition may be integrated, and the overall entity enhanced and transformed in myriad ways to the point where the originally recognized goodwill becomes largely meaningless – and even confusing if impairment occurs years after an acquisition has been successfully monetized."

To Ketchum, management should be able to determine a time period over which the acquisition and its related goodwill will be utilized. Simple questions can be used to inform this, such as "What is my objective for the acquisition?" and "What are my expected results from the acquisition and when are those expected? What about my integration timeline and key milestones?" "Amortization ensures that the necessary function of cost allocation will be applied in a systematic and understandable manner," he says.

Lee agrees, stating that acquired goodwill becomes increasingly meaningless as a separate item on the statement of financial position. "Amortization would provide a mechanism to reflect the utilization of the acquired goodwill in as systematic and easily understandable manner."

Scott notes an interesting point about the Institute's research paper. "People who argue that goodwill has an indefinite life take some of the same positions. They argue that it's fundamentally the fair value less the recognized book values at acquisition, and you can't disassociate the different elements within this calculation. Therefore, if you amortize the acquired goodwill, you would essentially be saying you can differentiate it from internally generated goodwill and other assets. And so the argument set out in the research paper is interesting in that it takes this same economic perception and draws a different conclusion. That's kind of striking to me."

The time is now

Scott hopes that people will read both the IASB's and the Institute's papers, and contribute their own views on the topic. "It's important for board members and staff to remember how long the standard setting process takes and make sure we get that right. It's amazing I did not know I could think as hard about acquisitions and goodwill as I have for the last year. They say that any problem can become fascinating once you're into it, and now with goodwill now I'm into it I am fascinated. It consumes a lot of my waking hours."

Lee also hopes people choose to read the papers. "I find it a very interesting read, and I would also encourage people to provide feedback to both the IASB's and the Institute's paper, especially as we have so many acquisitions and an active initial public offering market in this part of the world." he says. "This is an important issue for Hong Kong."

How to get involved

Tom Scott, Board member of the International Accounting Standards Board, describes the discussion paper as a really huge opportunity to have an influence. "Whatever we do decide, there will be an exposure draft. If that gets all the way to a standard nobody is touching it for a while," he says.

Ernest Lee, Technical Partner, Deloitte China and Chairman of the Institute's Financial Reporting Standards Committee, says that the standard as it currently is written is complex and difficult to apply in practice in some situations. "People are thinking about "what does it mean to have goodwill recognized on the statement of financial position?" and over many years you see that there are lots of contentious discussions about how to account for goodwill and even what is goodwill. Some advocate for an immediate impairment or immediate write off against retained earnings, or against profit and loss, some take the view that impairment only is the best way, and some advocate for amortization. So it doesn't seem to have a very definitive approach to take for goodwill. So therefore it became a very contentious issue over the years."

Michelle Fisher, Deputy Director, Standard Setting at the Institute, highlights: "We are keen to hear our stakeholders' views on the discussion paper and research paper and we so encourage you to send us a comment letter or attend one of our upcoming roundtables where you can discuss and share your views with us and other stakeholders."

The Institute has a dedicated webpage for its goodwill project to help stakeholders stay up to date with related events and activities and where its research paper can be found. It can be found on *www.hkicpa.org.hk*.

BREAKING BORDERS

Loretta Chiu, Associate Director at global financial services company Barings (U.K.), can't keep still. She switched from being a Big Four auditor to working with portfolio managers in the asset management industry, with a stint in the Cayman Islands in between. She tells Jemelyn Yadao how her accounting experience taught her to be undaunted by new tasks and new places

Photography by Jeff Gilbert

Long considered a notorious tax haven, the Cayman Islands once conjured up an image of sunny skies and shady finances. But that reputation wasn't enough to dissuade Loretta Chiu from the idea of moving there. "I was looking to work overseas and KPMG in the Cayman Islands came up. I was intrigued because everyone's heard of the place but you don't know much about it. People generally relate it to something negative – a tax haven that's like a country on paper," says Chiu, Associate Director at global financial services company Barings (U.K.), and a Hong Kong Institute of CPAs member.

After a phone interview, she was offered a job at the firm as an auditor, and moved to the British overseas territory in the Caribbean in January 2009. "Before I got the job, I was working in external audit in Hong Kong for telecommunication companies. In the Cayman Islands there's one main industry – financial services," she says. "So that offered me the opportunity to get my foot into corporate finance."

Indeed, Chiu's go-for-it personality and willingness to try new things has opened doors for her throughout her career so far. Another important part in her international career mobility is her CPA training, she says. "After around three years in an accounting firm, and getting your CPA qualification, it's like you are given a ticket to go anywhere."

Trouble in paradise

Chiu specialized in structured finance vehicles at KPMG. Structured finance is a term referring to financings that are more complicated than traditional lending, such as bank loans. Types of structured finance transactions include interest rate swaps, which can be used to help lower corporations' funding costs by converting floating rate obligations to fixed rate obligations. A cross-section of the international financial services sector also use special purpose vehicles (SPVs) for structured finance. Investment funds, the aircraft leasing sector and insurance companies all use SPVs to hold certain types of assets as part of their risk management strategies.

"As an auditor of structured finance vehicles, I would mostly audit onshore investments in the United States because of the close proximity," she says. "Over there, you see a lot of hedge funds and aviation finance, where you have to set up a SPV on day one to borrow money, as well as captive insurance companies [subsidiaries used by companies to provide insurance].

When I audited telecommunication companies, it was more operations-focused, like purchase and sales, inventories, expenses etc. These areas are absent in SPVs. A lot of the work is about the valuation of the underlying investments."

She says people working in the Cayman Islands – mostly expatriate finance professionals and lawyers – "work hard and play hard. In terms of work, there's a lot to do, but you're also 15 minutes away from the beach and people know one another as it's such a small island with a population of around 60,000. It's a relaxing place to live."

Despite the white-sand beaches and the opportunity of working in a different industry, Chiu decided it was time to leave the island after two and half years. "It was a fast route into corporate finance but I felt that compared to Hong

Kong, my home city, the place was quite detached from the real world because you're in the middle of the Caribbean sea – you have to fly to Miami to get back to the real world. Some people like it but I didn't want to stay there forever." The next stop for her was the United Kingdom.

The big move

London had long been on Chiu's mind. "When I first thought about working overseas, London was the place I wanted to go but it was the financial crisis back in 2008 when I made my decision, and there were not many job opportunities there," she says. After leaving the Cayman Islands in 2011, a headhunter approached her about a role at asset management company Babson Capital Management, now Barings. "I joined Babson Capital as a finance executive in 2012, working in the in-house accounting function for the funds," she says. "Why London? A lot of Hong Kong people have some sort of connection with Britain because of history. Also, when you're working in the finance industry, London is the European finance hub so you can't go wrong. So far, I'm enjoying my life here."

In 2016, Babson Capital and its subsidiaries Baring Asset Management, Cornerstone Real Estate Advisers, and Wood Creek Capital Management merged into one company under the Barings name. "So now, Barings has become a global financial services firm offering comprehensive suite of solutions to clients with over US$338 billion assets under management with more than 2,000 associates across North America, Europe and Asia Pacific as of December 2019," says Chiu.

As a finance executive, Chiu worked with the third-party administrator for Barings' quarterly

Loretta Chiu previously specialized in structured finance vehicles at KPMG Cayman Islands before moving to London in 2012.

"I am responsible for the entire life cycle of a deal, which includes liaising with underwriters, investors, internal and external counsel, portfolio managers and trustees."

management accounts. She was also the first point of contact at Barings for audit queries. "Quite common in the funds world, the third-party administrators are the corporate administrators. Their financial accounting team prepare the statutory financial statements. My role was to provide information at the capacity of the investment manager, like assets and liabilities pricing, trading process controls etc.," she says. "Most funds were domiciled in offshore jurisdictions like Netherlands, Ireland, Luxembourg. I built up my knowledge in both Dutch and Luxembourg Generally Accepted Accounting Principles while working on these funds."

World of CLOs

Chiu now works at the collateralized loan obligations (CLOs) desk at the company, which is part of the global investment services department. CLOs pool together multiple loans, such as business loans, as investment products. Loans are repackaged into tranches based on the level of credit risk assumed by the investor.

CLOs have in recent months been hit by negative headlines because of widespread stress in the leveraged loan market, and looser deal documentation in both the underlying loans and CLO structures. Barings argues that while CLOs are subject to relative bouts of volatility, as with any asset class, they have also continued to deliver impressive risk-adjusted returns and low defaults over time.

"The main idea of setting up a CLO is to repackage a pool of assets risk and rewards allowing investors to take the appropriate level of risk and reward for their appetite and any bespoke needs the investors may have. Our investors are mainly professional investors – typically able to take large positions of risk – like mutual funds, commercial banks, pension funds and insurance companies," Chiu explains. "Our CLOs are actively managed cash flow CLOs, which are securitizations backed by a pool of senior secured corporate loans and bonds. Most of the collaterals are first-lien leveraged loans and bonds [that are secured and the first group to be repaid if a loan is in default]. A small allocation of high-yield bonds, second-lien loans and revolvers are also allowed. These loans and bonds are typically rated below investment grade and are more risky. On the other hand, the CLO vehicle issues rated note tranches with a priority of payment and the unrated equity-like tranche. It's called the waterfall structure. The CLO collects interest and principal proceeds from the collateral pool, and makes interest and principal payments to the various CLO debt tranches. Any excess typically goes to the CLO equity tranche, subject to conditions. This is a game of arbitrage to the investors. Barings, as the investment manager, earns management fees and incentive fees from managing these CLOs."

Chiu works "more on the back-end, operational side" and closely with the portfolio managers. "Alongside my team members, I am responsible for the entire life cycle of a deal, which includes liaising with underwriters, investors, internal and external counsel, portfolio managers (PMs) and trustees. My day-to-day responsibilities include hypothetical trade testing, cash and position reconciliation, cash flow modelling, as well as ensuring ad hoc requests are dealt with in a timely manner."

Her job requires her to be very detail-oriented and methodical, she adds. "These funds are all governed by an offering memorandum, or offering circular (OC), which tells you the detailed structure of the CLO, regulatory and reporting requirements, investment eligibility criteria, definition of various tests. It stipulates everything we need for

In 2016, Babson Capital and its subsidiaries Baring Asset Management, Cornerstone Real Estate Advisers, and Wood Creek Capital Management merged into one company under the Barings name. This created an international, multi-asset investment manager with more than US$338 billion in assets under management.

Chiu works closely with portfolio managers at the collateralized loan obligations desk at Barings (U.K.)

a CLO from cradle to grave – from set up to redemption. This is our bible," she explains. "We check the OCs back and forth because we always get questions from the PMs – we see what we can invest and what we can't, and if the rating is below a certain point, we have to look at something else. I always have a stack of these bibles next to me at work."

With the transition from working in the company's in-house accounting function to CLOs, the learning curve for Chiu was steep. "In the past, I had to reach out to those people who actually work on the funds, which is my role now," she says. "In the funds world, people are more concerned about the returns or how the funds perform rather than the accounting profit. So after transitioning to this role, I developed an in depth understanding of how the funds are performing, and I speak to the PM a lot more than I did previously."

A global perspective

Chiu went to Diocesan Girls' School before studying for her professional accountancy degree at The Chinese University of Hong Kong. During her second year at university, she studied at the University of California, Los Angeles as part of a six-month student exchange programme, which was what first exposed her to a world of different perspectives. "It definitely broadened my horizons," she says. "I met different types of interesting people from all over the world. I said to myself, 'wow this world is so big.' The experience taught me that the road is not always straight. I met people studying completely different things, who had travelled around, and I remember back in Hong Kong it seemed like you had to follow a certain path that leads to success, and if you get sidetracked, it was seen as you going astray. But so many people around the world go astray. They are on their own path."

She came back to Hong Kong with

"When you take on an engagement, it may be something that you have never done before... Even though there are less surprises in my current job, I'm still applying these organizational skills."

her mind made up – she was going to live and work overseas, one day. "But I had to be realistic. I didn't have any work experience. I was determined to finish my university degree."

After graduating, Chiu joined PwC where she qualified as a CPA. She worked at the firm for four years, moving up from junior auditor to senior associate. "Those four years in audit were quite tough, I won't deny it, but the training it gave me was priceless," she says. "Working on one project after another gave me excellent training in project management and prioritizing tasks, especially when you reach the position of senior associate, where you have to lead the field job. You have to manage your own team, communicate with your client, satisfy your managers and partners, so it's an excellent opportunity to learn how to cope with the work pressure and at the same time get the job done."

It also taught her to be adaptable, and unfazed by unexpected tasks or sudden changes. "When you take on an engagement, it may be something that you have never done before, but you still have to do it. So it trains you to think 'how do I accomplish this task?' And when difficulties come up, 'how do I cope?' Even though there are less surprises in my current job, I'm still applying these organizational skills."

Sound of success

Outside of work, Chiu likes to keep busy. Londoners, she says, have inspired her to rediscover and pursue her personal interests. "One thing I find quite interesting here is that the people around me, including my colleagues, work hard but they are also active and have a lot of interests. Many people go to the gym or they sing in choirs over the weekends. Even though they have their own families, they still maintain their own hobbies. This is something I didn't really see before I left Hong Kong 10 years ago," she says.

She practices yoga and is learning a new language. "I've been learning French for the past three years, yet I still can't speak it properly," she laughs. She also plays the violin in an orchestra through the East London Late Starters Orchestra, an organization teaching string orchestra for adult beginners. "I play four hours a week," she says. "It was something I really wanted to do in the past but I never really had a chance. This orchestra ticked all the boxes – it's for beginners, the people there are really passionate about music, so it was exactly what I wanted. Apart from playing in the orchestra I also write my own music and improvise with the keyboard – perhaps one day I will be able to perform them in public!"

With all the opportunities she's had so far, Chiu says the anxiety and stress that came with her decision to move to a different environment was in the end worth it. "Moving between countries is life-changing. It contributed a lot to my personal growth," she says. "But it wasn't easy. I didn't have any connections here, so looking back, it was a brave move. If I were to make a decision on whether to move abroad again, I'm not sure I would be making the same one. There's too much uncertainty. But back then I was only 26 – so why not?"

This interview and photoshoot were conducted before the U.K. was put into lockdown.

HOW TO...

by Dr Scarlett Mattoli

The Clinical Psychologist at Psynamo Group, a Hong Kong-based professional mental health practice, on ways to stave off the possible pitfalls of working from home

How to stay mentally healthy while working from home

The world has been forced to stay home for the greater good of humanity. These social distancing measures, including enforced home quarantine, have meant that many have had to adapt existing commitments drastically and rapidly.

This combination of possible interruptions to our normal daily lives can have a great impact on our physical and mental health, and overall well-being. Public health research and anecdotal evidence indicate an increase in reported mood disorders, such as anxiety, stress, and depression, as well as a rise in cases of domestic violence, drug or alcohol abuse, and unhealthy online activities. It has become more important than ever to take mental health more seriously so we are better prepared for whatever the future holds, whether it be a slow return to a modified "normal" or a continued adapted online life.

What is mental health?

There are a range of emotions, feelings, moods that we may feel from one time to another, ranging from sadness after grief and loss, to anxiety and stress for performance and work issues. Accepting and managing this variation is particularly important in these times where we are likely to have far more stressors than usual, and fewer that we can control.

What are the pitfalls of working at home?

While the human brain is designed to shift quickly to accommodate for survival, it does not adapt so well to suddenly shifting to a new "normal" that is not our preference. Companies have had varying levels of readiness for remote working and numerous difficulties with ensuring full capabilities are in place. On top of this, slow Wi-Fi, children attempting to do homeschooling, no privacy, no workspace, and lack of usual cues for switching to our "work self" can all impede motivation, productivity, and performance.

What are the benefits of working from home?

Even though all of the foregoing can get in the way, there are some benefits. For example, with regained time and less stress, we are able to find and enjoy more quiet time, more hours of actual sleep that often translates into deeper sleep resulting in better mental clarity when awake, wider and more creative choices in food preparation, and freedom in the timing of meals, as well as more time to be with family, communicate with peers just for enjoyment, manage exercise and free-time schedules and learn new things. However, does everyone see it this way? Some may live alone and, as such, will need to make more of an effort to reach out to others. But on the whole, maintaining balance in life as much as possible is a positive way to emerge with improved mental health habits in the long-run.

Self-care is an integral part of a mental health regime. The following are some of the top suggestions for anyone of any age.

1. **Set a routine and stick to it.** Whether you put it up on a poster or in a virtual log, get yourself and your family up, get prepared for the day, and proceed like you mean business. Losing sight of goals is a slippery slope into feeling unmotivated, and without our usual transport, peer, and community cues, we are at risk of losing sight of what we will regain when we can begin to get back into the full swing of life again.
2. **Live day-by-day, but also keep an eye on the future.** This means making a reasonable plan B, even plan C, depending on the needs of you and your family. For example, individuals who have been unable to continue working at all will need to be focusing on managing any savings and future employment opportunities, especially where it may necessitate a move to a new industry. Families who have youth preparing for exams or starting university studies may now need to update a timeline to include when institutions will be opened again and what the upcoming year will look like in terms of study possibilities. Having a few different plans can help mitigate fears and make responding instead of just reacting more possible.
3. **Be a good researcher and inform yourself with reputable sources.** Look at the World Health Organization, the Hong Kong government's Centre for Health Protection, and other reputable websites for accurate health information. Third-party sources may misinterpret or misrepresent information, making it more exciting or unsettling.
4. **Stay connected.** We are likely spending more time than ever online but for many, it is all they can get. Be sure to keep reaching out to people, checking in on family and friends, connecting with colleagues virtually, and when at home with family, spend time together with no electronics involved. Real connection with other humans is one of our basic drives. Without it, our neurons fire a little differently. This means that we have less of some of the neurochemicals in our brain that help us to feel pleasure (e.g. serotonin and oxytocin) and feel motivated (dopamine) to carry on with our daily lives, interrupted or not. Keeping our brains active in this way helps to keep our neuronal connections firing away, maintain a healthy outlook and avoid a serious downturn in mood.
5. **Keep a reasonable diet.** Get some exercise, stay hydrated, manage sleep schedules, and keep up with medications and/or supplements as directed by medical professionals.
6. **Have some fun and some green in your life!** Getting a moment of alone time may be hard these days, but doing activities that can at least boost brain activity and good neurochemicals can help to stave off a low mood. This includes listening to music, walking by the water or going on a hike. Small things count too, like playing with a pet, watching comedy shows and developing a new skill (e.g. a foreign language). Aim to do something pleasurable that stretches you a little, and gives you something to look forward to everyday as a little reward.

THOUGHT LEADERSHIP

by Lydia Leung

The Associate Director, Valuations Services, at IHS Markit on the impact of the COVID-19 pandemic to business valuation approaches

Valuing private equity portfolio in times of significant uncertainty

The uncertainty associated with the global COVID-19 pandemic has caused unprecedented public market volatility. While business activities in Mainland China have shown recent signs of recovery, many parts of the world were still under lockdown in April. People fear there will be further waves of outbreaks, and the economic outlook remains uncertain.

Valuation professionals look at what is known and knowable as of a measurement date and apply appropriate inputs to valuation models. Yet, many inputs for valuing private investments are unobservable and inferred from market data or traded securities. In turbulent times, market volatility, government actions and rapidly changing business environments should all be considered when determining fair value.

Market conditions can impact all valuation approaches. The following is an example to illustrate considerations for calibration and adjustments in the valuation model in times of significant market uncertainty. These approaches are widely used in business valuations and are adjusted for current market conditions and market prices.

Example

Amazing Trip is a fast-growing online travel platform selling local experience tours in Mainland China. In the year to 30 June 2019, it recorded US$5 million in revenue. It forecast revenues of US$6 million for the next 12 months.

Since the outbreak of COVID-19, revenue from travel-related products have gone down by 90 percent due to travel restrictions and decreased demand for travel. The company diversified its revenue source by selling gourmet groceries on its platform. This new source of revenue has moderately offset the loss of its primary source of income from travel products. Its newly diversified business helps it weather the storm better than its peers and in the year to 31 March 2020, it recorded revenues of US$5 million. However, it only expected next 12 months revenues of US$4 million.

The company closed its last preferred financing round in June 2019. The implied equity value of the latest transaction is US$40 million. How should the previously calibrated inputs be adjusted on 31 March 2020?

Calibration of unobservable inputs

Calibration is the process of using transaction price (usually the company's securities) as of transaction date to solve for certain unobservable inputs, which are then rolled forward and adjusted for subsequent measurement dates. Assuming the transaction price is at arm's length, the implied company value would be considered as the fair value as of transaction date.

The transaction price and reported and expected revenues lead to an enterprise value/last 12 months (EV/LTM) revenue multiple of 8x and enterprise value/next 12 months (EV/NTM) revenue multiples of 6.67x on 30 June 2019. The calibration indicated market participants valued the company at the median of the guideline comparable companies' EV/LTM revenue multiples at the transaction date.

The company value is re-measured subsequently on 31 March 2020. Both the economic environment and company's prospects have changed since the transaction date, and market participants may not pay the same price as they would have before. Hence, the previous assumptions from calibration and inputs must be updated. Below are some factors (but not limited to) we can consider during this exercise:

- What are the known and knowable elements as of the re-measurement date?
- What are the impacts of COVID-19 on the company's revenue, customers, supply chain and operations?
- What are the company's milestone progress, performance and liquidity?
- Is there any change in the exit plan due to the pandemic?
- How insulated is the company to COVID-19 against its peers?

As Amazing Trip appears to be less susceptible to COVID-19 than its peers due to a more diversified business, higher than median multiples can be used for guideline comparable companies, say the third quartile EV/LTM revenue multiples on 31 March 2020.

Avoid double dipping of valuation inputs

The valuer should avoid considering the same set of valuation inputs twice ineffectively. In this case, NTM revenue on 31 March 2020 has been revised downward to account for the lower expectation due to the near-term impact of COVID-19. If a lower revenue or a larger discount for lack of marketability is applied, the result would appear to be punitive.

Review the result

Estimating fair value is not an exact science. Valuation from different methods do not necessarily reconcile. More than one valuation method should be used to corroborate with each other. If one approach results in a significant difference from the others, valuers should understand the differences and revisit the valuation inputs and models if necessary.

As uncertainty abounds, what is "known and knowable" as of measurement date can become less subjective or obvious. Valuation assumptions and rationales should be documented in detail.

Until a vaccine has been found and widely applied, economic uncertainties remain. However, the pandemic does not change the framework of fair value and valuation policy. Valuers need to exercise better judgement and establish a robust valuation policy to deal with the upcoming challenges in valuation.

IRD issues guidance on cryptocurrency taxation

An overview of the Inland Revenue Department's guidance on digital assets

On 27 March, the Inland Revenue Department (IRD) issued the revised Departmental Interpretation and Practice Notes (DIPN) No. 39 *Profits Tax – Digital Economy, Electronic Commerce and Digital Assets*. The focus of this article is digital assets.

Hong Kong has long been a popular choice for doing business for its robust regulatory framework, abundance of capital and wealth of human capital. From a business perspective, its position as a global financial hub also grants it unrivalled advantages for fundraising and ammunition to incubate innovation. Hong Kong's low, simple and competitive tax regime complements these advantages, fostering the free flow of capital in every sense.

Within the market, it is encouraging to see that many substantial blockchain/digital asset projects have taken root in Hong Kong. While the absence of an indirect tax regime such as value-added tax or goods and services tax makes it easier for these companies to operate service platforms and exchanges without having to worry about transactional tax burden, there remains uncertainties regarding how corporate income tax rules (e.g. profits tax in Hong Kong) treat these business activities. The broad guidance set out by the non-binding DIPN is welcomed as a step on the regulatory front to bolster Hong Kong's position in this industry. However, we also discuss some areas where more needs to be done in order to ensure that Hong Kong's existing tax laws do not tax digital assets unfavourably.

Turning to some of the key areas of clarity provided by the DIPN.

Categorization of digital assets for Hong Kong tax purposes

According to the IRD, the profits tax treatment of digital tokens would depend on their nature and use. To this extent, the IRD provides three categories of digital assets and sets out how these would be classified for tax purposes.

a. **Payment tokens** are used as a means of payment for goods or services and encompass cryptocurrencies (e.g. bitcoin). They do not provide the holder with any rights or access to goods or services. Such tokens are not legal tender in Hong Kong but are regarded as virtual commodities.
b. **Security tokens** provide the holder with particular interests and rights in a business. They represent ownership interests in the business, a debt due by the business or entitlement to a share of profits in the business. Where digital tokens constitute "securities" as defined in the Securities and Futures Ordinance, then the IRD confirms that the existing provisions in the Inland Revenue Ordinance that relate to securities and collective investment schemes would also be applied to the taxation of such digital tokens where relevant.
c. **Utility tokens** provide the holder with access to particular goods or services which are typically provided using a blockchain platform. The token issuer would normally commit to accepting the tokens as payment for the particular goods or services.

Initial coin offerings

While initial coin offerings (ICOs) have all but vanished after reaching their peak in 2018, in Hong Kong new companies normally do not file tax returns until 18 months after commencement of business (or earlier if they derive taxable profits in their first accounting period), and hence it is about time when the IRD starts reviewing the tax returns filed by companies having done ICOs.

The guidance clearly states that the IRD will review the white paper or any other underlying documents of an ICO and examine what rights and benefits are attached to the digital tokens. From the perspective of the issuer, the tax treatment of the proceeds from an ICO generally follows from the attributes of the tokens. It is the nature of the rights and obligations of the tokens, not the form in which the tokens are issued, that determine the tax treatment. For example:

a. Proceeds from the offering of securities tokens that give token holders shareholders' rights would be capital in nature (and accordingly should not be taxable).
b. Proceeds from the offering of utility tokens that give token holders a right to future benefits would be viewed as a prepayment for future goods or services and would be taxable if sourced in Hong Kong. The timing of revenue recognition would depend on the details of the issuer's performance obligations, determined in line with generally accepted accounting principles.

Digital assets held for investment

If digital assets are bought (e.g. through an ICO or exchange platform) for long-term investment purposes, any profits from disposal would be capital in nature and not be chargeable to profits tax. In determining whether the digital assets are capital assets or trading stock, the usual approach would be adopted – i.e. after considering the facts and circumstances, applying well-established tax principles like the "badges of trade."

Cryptocurrency business

The DIPN sets out the common business activities involving cryptocurrency to include the trading of cryptocurrency, exchange of cryptocurrency, and mining (the validation of transactions on the blockchain in exchange for newly-issued cryptocurrency). The extent to which these activities amount to the carrying on of a trade or business is a matter of fact and degree to be determined upon a consideration of all the circumstances. Factors such as the degree and frequency of the activity, the level of system or organization (i.e. whether the activity is undertaken in a business-like manner) and whether the activity is done for the purpose of making a profit are relevant considerations.

Hong Kong-sourced profits from a cryptocurrency business carried on in Hong Kong are chargeable to profits tax. The broad guiding principle (i.e. what were the person's operations that produced the relevant profits and where those operations took place) will be applied to determine the source of the profits. Similar comments were made in the 2018 annual meeting between the IRD and the Hong Kong Institute of CPAs, but unfortunately no further guidance is provided beyond these general comments in the DIPN.

New cryptocurrencies received through certain events such as airdrops (free distribution of cryptocurrency for publicity purposes) and blockchain forks (divergence based on changing protocols) in the course of a cryptocurrency business are to be regarded as business receipts of the business and assessed accordingly.

Cryptocurrency used for business transactions
Transactions involving cryptocurrencies should be accrued based on the prevailing market value as of the date of transaction.

Cryptocurrency received as employment income
The same salaries tax treatment would apply to remuneration in cryptocurrency received by employees, and the amount to be reported should be the market value of the cryptocurrency at the time of accrual. Readers are reminded that both employers and employees have reporting obligations.

Areas requiring further guidance

While the DIPN has covered many common issues encountered by cryptocurrency industry players and the IRD's views are largely in line with our views, there are some issues where uncertainty remains. Furthermore, there are a number of areas of Hong Kong tax law where special concessions, or specific tax treatments, are available to certain kinds of businesses, but only when those businesses are entering into transactions in securities. In many cases, these concessions have been provided to ensure that Hong Kong's financial services sector remains competitive from a tax perspective. However, even though many digital assets are marketable and can be traded on exchanges, they often do not meet the definition of a security. If the same concessions are not available to businesses performing fundamentally similar activities, but trading in digital assets, then Hong Kong risks seeing these businesses move to other jurisdictions.

We highlight a number of areas where we feel that further guidance, or if necessary legislative change, is needed to ensure that businesses trading digital assets are taxed in ways that are consistent with currently established practice relating to the trading of more traditional financial assets.

Treatment of unrealized gains/losses
The DIPN has not touched on the treatment of fair value gains and losses that may arise from the year-end revaluation of the digital assets used for the purposes of carrying on a cryptocurrency business.

Our view is that the treatment should depend on the nature of the digital assets (whether capital or revenue), and to the extent that they are revenue in nature. it would appear that the principles in the Court of Final Appeal *Nice Cheer Investment Limited v. Commissioner of Inland Revenue* case – which established that unrealized gains from the increase in value of trading stock are not chargeable to tax at the time they are accounted for, but should instead be taxed at the time of realization – should generally be followed unless the provisions under the Inland Revenue (Amendment) (No. 2) Ordinance 2019 apply. The provision allows taxpayers to elect to be taxed on a fair value basis in respect of financial instruments accounted for in accordance with Hong Kong Financial Reporting Standard (HKFRS) 9 *Financial Instruments* (or International Financial Reporting Standard (IFRS) 9). However, since not all digital assets are accounted for in accordance with HKFRS/IFRS 9, the IRD may consider providing a concession or making legislative changes to allow for such an election in the case of digital assets that are trading stock.

Availability of profits tax exemption for qualifying investment funds
The Unified Fund Exemption regime, enacted in 2019, provides that all privately offered onshore and offshore investment funds operating in Hong Kong, regardless of their structure, size or the purpose that they serve, can enjoy a profits tax exemption for their transactions in qualifying assets subject to meeting certain conditions. Qualifying assets broadly cover securities and other types of financial products. As digital assets that are not securities would not be qualifying assets, crypto funds investing in such digital assets will not be able to enjoy the tax exemption.

The government may wish to consider whether from a policy perspective the regime can be extended to allow crypto investment funds to benefit from it, especially given that the Securities and Futures Commission recently introduced a new regulatory regime covering crypto fund managers.

Potential adverse tax implications associated with crypto borrowing and lending transactions
Similar to traditional financial institutions which may engage in regular securities borrowing and lending transactions, players in the cryptocurrency industry may engage in the borrowing and lending of digital assets, or commonly referred to as "crypto borrowing and lending."

In a separate DIPN, the IRD has indicated that it will look at the legal form rather than the underlying economic substance or accounting treatment as a starting point to determine the nature of a given financial instrument. Given that a crypto lending transaction may constitute a change in legal title, there is a risk that it would be regarded as a disposal by the lender and acquisition by the borrower of the coin, in which case the realized gain/loss could be included as the lender's taxable profits.

While the Inland Revenue Ordinance contains specific provisions to provide relief for securities borrowing and lending transactions, such relief may not be applicable to crypto borrowing and lending transactions that do not fall within the ambit of the provisions. The government may wish to consider extending the relief to cover these transactions.

As blockchain and the associated business models are still relatively new, there will certainly be more tax questions arising from different scenarios – for instance, how should the source of profits be determined in cryptocurrency mining through proof of work vs. proof of stake, or more broadly in the context of smart contracts that are executed autonomously on a blockchain? How can permanent establishment risks be managed? How can one determine the value of digital assets that are not widely traded for tax purposes? Would the transfer of certain types of digital assets give rise to stamp duty? What actions are needed from a Common Reporting Standard perspective?

All these and many other issues will need to be addressed by companies operating in this sector, as the industry evolves.

This article is contributed by ***Gwenda Ho****, Tax Partner,* ***Peter Brewin****, Transfer Pricing Partner, and* ***Tommy Hui****, Senior Tax Manager at PwC*

Reviewing the OECD's COVID-19 analysis

A look at how the OECD's new guidance can help taxpayers affected by COVID-19

The Organization for Economic Cooperation and Development (OECD) issued an analysis on 3 April examining tax treaties and the impact of the COVID-19 crisis. *OECD Secretariat Analysis of Tax Treaties and the Impact of the COVID-19 Crisis* contains a number of potentially significant tax concerns may arise as a result of key staff being forced to work in a location other than their normal place of work. These include accidentally causing a company to be resident in a location other than intended, accidentally creating a permanent establishment or other taxable presence in a new jurisdiction, and changes to the tax residence status of the individual concerned. The OECD analysis is helpful in this regard, setting out the view that COVID-19 measures are generally exceptional and should not normally have an impact on a company or an individual's tax status under tax treaties in a particular jurisdiction. We note however, that construction projects appear to be an exception where delays as a result of the virus may result in a permanent establishment being created.

The OECD's guidance will be helpful for many taxpayers who are concerned about the impact staff dislocation may have on their tax position. However, it is worth noting that it is only guidance, and is not binding, especially on the many jurisdictions in this region that are not OECD members. Further, the paper primarily deals with the position under OECD-model treaties rather than liabilities that might arise under domestic law.

We note that a number of jurisdictions, such as the United Kingdom and Australia, have also issued their own guidance setting out the domestic law position and trust that other jurisdictions will take a similar approach, although taxpayers will need to monitor this on a case-by-case basis. Finally it is worth noting that, while the OECD generally encourages a position of maintaining the status quo, taxpayers who were already close to the minimum requirements for maintaining their requisite presence in multiple jurisdictions for residence or substance purposes may find their positions have become more difficult to manage.

Detailed comments

Permanent establishments

The OECD considers it unlikely that employees working from home in a different jurisdiction from that in which they habitually work would create a permanent establishment risk in the new location. As this situation is temporary and exceptional, it would not generally have the requisite degree of permanency to create a fixed place of business.

In addition, carrying on intermittent business activities at home as a result of government directives does not put an employee's home at the disposal of the enterprise. In general, for a home office to create a permanent establishment, an enterprise has to require that employee to use their home and for them to do so on a continuous basis. Where a separate place of employment is made available to the employee, the exceptional use of a home office is unlikely to be a fixed place of business.

Similarly, the functions exercised from home, even if they involve significant roles in the conclusion of contracts, are unlikely to be regarded as habitual, particularly when an employee is only working from home as a result of force majeure or government directives. However, the situation may be different where an individual was already habitually concluding contracts in their home country before the outbreak.

Finally, the OECD notes that any temporary break in construction projects as a result of the pandemic should be included in the duration of the project for the purposes of calculating whether there is a permanent establishment. This may mean that some projects originally slated to fall within the relevant de minimis limit in the treaty may now run over the limit and result in a taxable presence. Developers should review their situations in this regard.

Corporate residence

Similarly to the position on permanent establishments, the OECD is of the view that the temporary relocation of board members to a different location as a result of COVID-19 should not have an impact on a company's residence. It is worth noting on practical terms, however, that the strength of this analysis depends on which version of the treaty is in use. The most recent 2017 version of the model convention settles cases of dual residency by mutual agreement between the authorities. The OECD commentary (Article 4, paragraph 24.1) gives a range of factors to be considered, including where board meetings are usually held, where the chief executive officer and other senior officials usually undertake their duties, where the company's headquarters are and where day-to-day management is usually carried on. The OECD is of the view that in most cases this should lead to no change of conclusion if senior executives are temporarily located abroad.

The pre-2017 model convention was more mechanical and requires jurisdictions to look at the company's place of effective management. All relevant factors must be considered. The OECD notes that some states interpreted the place of effective management as being ordinarily the place where the senior person or group of persons make management decisions. This implies some may have a different interpretation. So while the OECD's stance is clear, it appears there is still scope for some jurisdictions to take a different view.

Cross-border workers

Where an employee lives in one jurisdiction but works in another, any employment-related income remains taxable in the first instance in the location where they used to work. This applies equally in the case of government subsidies during the COVID-19 crisis. According to the OECD's analysis, such subsidies most closely resemble termination payments which the OECD commentary attributes to the place where employment took place.

Individual residence
The OECD considers it unlikely that an individual's residence would be affected by the COVID-19 situation. They note that this is only the case where there is a treaty in place – absent a treaty, a simple "days-present" test may well result in residency and it would be a matter for the host country to determine what relief to grant. The U.K., Ireland and Australia have already done this.

They envisage two basic scenarios. One is a person stranded overseas having travelled on holiday or a short business trip. Assuming that person meets the domestic residence requirements of both jurisdictions, the normal tiebreaker in the first instance would be where the individual had a permanent home, and that would almost always be their home country.

The second scenario is more complex, where someone who normally lives abroad and has residence there has returned to their previous jurisdiction of residence. In this case, they may have ties to the previous jurisdiction which make the outcome of the tiebreakers less clear or potentially tip the balance from one place to another. However, ultimately the relevant authorities would need to consider the habitual abode of the individual and the OECD's view is that this should be considered over a sufficiently long period of time. They consider it would be inappropriate to base it on an exceptional circumstance such as COVID-19.

Observations

Overall, the OECD's analysis is to be welcomed as a pragmatic approach designed to prevent taxpayers facing unforeseen tax difficulties as a result of the crisis. For the most part, it recommends jurisdictions concluding that taxpayers retain the same tax profile as they had before the outbreak. Nonetheless, it does note some limitations to this approach:

1. It is only applicable where there is a double tax treaty in place; absent this, domestic law provisions may be much more stringent or less flexible than the standard treaty provisions. Hong Kong, in particular, does not have treaties with a number of significant locations, meaning that the existing low thresholds for carrying on business and the 60 day test for salaries tax may still apply.
2. Many treaties have variations from the OECD model convention.
3. Borderline cases may be placed in a more difficult position – while it is unlikely that a large company is going to face difficulties because its chief executive got stuck overseas on a business trip, individuals or companies with a less clear residential status still risk the effects of the virus tipping the balance. While the OECD discourages this, it will ultimately be down to the interpretation of the tax authorities concerned.
4. On a wider basis, the attitude of individual authorities is clearly going to be critical to how businesses are impacted. The OECD refers to several authorities which have already issued guidance on these matters under their domestic laws and it is hoped others will follow suit.
5. Not all taxes are covered by treaties, so state and provisional taxes or social security contributions may still require separate analysis.
6. Finally, it appears that there may be a genuine impact on the taxability of construction projects as a result of the disruption of the virus.

Although not expressly mentioned by the analysis, the move to restrict the extent to which a permanent establishment may arise as a result of COVID-19 measures should also assist employees who are currently working outside their usual country of residence as it would generally give them 183 days' grace before their employment income became taxable overseas provided the employee continues to work solely for the benefit of an overseas employer and the cost of employment is borne overseas.

On the other hand, the OECD's guidance is premised on short, accidental presence. It does not cover what happens if the current situation were to extend for more than half a year, and parts of the analysis may be susceptible to challenge where the new arrangements are strictly speaking a matter of choice rather than enforced by law.

Its comments on cross-border workers are unlikely to be of practical help to anyone who normally works in Mainland China but is resident in Hong Kong and is currently forced to work from Hong Kong. On a practical level, both sides are likely to regard themselves as having the right to tax the income and it is unlikely in view of this that a tax credit will be available for the double tax paid. While we hope the relevant authorities can come to a pragmatic view in light of the special circumstances, concerned individuals should consult their tax advisors.

While the guidance should provide a degree of reassurance for taxpayers during the disruption, it is important that taxpayers and their advisors work together to understand what their exposures might be, which are likely covered by treaties and what the approach of the relevant jurisdictions concerned will be. We would encourage the Inland Revenue Department to follow the lead of overseas authorities in issuing their own guidance on these issues confirming that Hong Kong would not seek to impose a tax charge, either under domestic law or a tax treaty, if a person has a taxable presence in Hong Kong only as a result of extraordinary measures resulting from COVID-19.

This article is contributed by KPMG China's ***Ivor Morris****, Tax Partner, Corporate Tax Advisory, Hong Kong, and* ***Murray Sarelius****, National Head of People Services*

Massive U.S. tax relief act to combat economic fallout from COVID-19

A look at the new tax relief measures to help individuals affected by COVID-19

In view of the coronavirus (COVID-19) pandemic, a massive United States spending bill was signed into law on 27 March – the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The act is primarily aimed at providing immediate liquidity to businesses and individuals.

A brief summary of the corporate (and individual, where applicable) tax provisions is as follows.

Delay filing of and payment on federal income tax returns due 15 April

- **Previous law**: Taxpayers are generally required to file their 2019 federal income tax returns and pay the required taxes on or before 15 April.
- **Change**: The Internal Revenue Service (IRS) grants filing and payment relief for taxpayers who are affected by the pandemic (affected taxpayers). For an affected taxpayer, the due date for making 2019 federal income tax payments, 2020 first quarter federal estimated income tax payments (including tax payments on self-employment income), and filing federal income tax returns due on 15 April is automatically postponed to 15 July. The start date for calculating interest and penalties for late filing or late payment and the due date for applying for further extension are accordingly postponed.

Modification of net operating losses rules

- **Previous law**: For net operating losses (NOL) arising in a taxable year after 31 December 2017, a prior law had generally: (1) eliminated the two-year NOL carryback period and allowed the NOL carryforward period to be indefinite; and (2) limited the NOL deduction to 80 percent of the taxable income for the taxable year.
- **Change**: The act allows for NOLs arising in a taxable year beginning after 31 December 2017 and before 1 January 2021 to be carried back to each of the five taxable years preceding the taxable year in which such loss arose, i.e. for calendar year taxpayers, this will be 2018, 2019, and 2020. And, the 80 percent-limitation is repealed for taxable years beginning before 1 January 2021. This would mean potential refunds of taxes paid in the relevant prior years at a higher tax rate.

Accelerating refunds for prior-year alternative minimum tax credits

- **Previous law**: A prior law had repealed the corporate alternative minimum tax (AMT) but enabled corporations to recover previously paid AMT against the regular tax liability (or, if the AMT paid is in excess of the regular tax liability, 50 percent of the excess is a refundable credit) after 2017 and before 2022.
- **Change**: Increasing the cash refund attributable to the AMT refundable credit amount (the excess of the credit over the regular liability) from 50 percent to 100 percent for 2019.

Enhanced business interest expense deductibility

- **Previous law**: Certain taxpayers are subject to a limitation of business interest deduction equal to the amount of business interest income plus a 30 percent-threshold of its adjusted taxable income (ATI).
- **Change**: The act increases the 30 percent-threshold on ATI to 50 percent for taxable years beginning in 2019 and 2020. Taxpayers are permitted to elect not to use the increased threshold. Also, taxpayers can elect to use their 2019 ATI as ATI for 2020. This new rule may potentially increase the amounts of NOLs generated in these taxable years and benefit from the special five-year NOL carryback provision to obtain refunds of taxes paid in the relevant prior years at a higher tax rate.

Aside from the above, the act includes other tax provisions that could be of interest to taxpayers, e.g. enhanced charitable contribution deductibility for corporations and individuals making qualified cash contributions, 100-percent-bonus-depreciation for certain qualified improvement properties placed in service after 31 December 2017, a new employee retention credits for employers who are compelled to close their business due to the pandemic but will continue to pay their employees, recovery rebates in the form of direct cash payments for U.S. individuals (subject to phase-outs at certain income levels), receipt of "coronavirus distributions" from retirement plans without surcharge, etc.

Important note

The full text of act is 880 pages in length. It is therefore important to note that the above is a highly simplified summary of some fairly complex provisions and taxpayers are strongly advised to consult their qualified U.S. tax advisors as to how these (and other) provisions could impact them before any action is taken with respect to any provision in the act.

Note: This article was published on Hong Kong General Chamber of Commerce's Coronavirus Business Help Corner on 31 March.

This article is contributed by ***Patrick Yip****, Vice Chair, and* ***Jennifer Shih****, Tax Director of Deloitte China*

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The latest standards and technical developments

Local updates

Members' handbook updates
Members' handbook update no. 236 relates to the amendments to the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard.

Members' handbook update no. 237 includes:

- HKSA 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatements*; and
- PN 830 (Revised 2020) *Reports by the Auditor under the Banking Ordinance*.

Invitations to comment
The Institute is seeking comments on:

- The International Accounting Standards Board's (IASB) Exposure Draft: ED/2019/7 *General Presentation and Disclosures* by 22 May.
- The International Auditing and Assurance Standards Board's (IAASB) Public Consultation on *Proposed Guidance Extended External Reporting Assurance* by 1 June.
- IASB Request for Information: *Comprehensive Review of the IFRS for SMEs* Standard by 12 June.
- IASB Discussion Paper: DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* by 7 August.

International updates

Audit and assurance

- IAASB *Guidance for Auditors during the Coronavirus Pandemic*.
- IAASB March 2020 meeting audio.

Ethics

- The International Federation of Accountants' *Exploring the IESBA Code*: fourth instalment.
- The International Ethics Standards Board for Accountants' (IESBA) technology initiative webinar (20 April).
- IESBA March 2020 meeting audio.

IFRS updates

- March 2020 IASB update and podcast.
- IFRS 17 *Insurance Contracts* podcast covering the March IASB meeting, where the IASB tentatively decided to defer the effective date of IFRS 17 to 1 January 2023.
- Request for Information: Comprehensive Review of the *IFRS for SMEs* Standard webcast.
- Exposure Draft *General Presentation and Disclosures* webinar recording in Putonghua.
- March 2020 IFRS Interpretations Committee update.
- IASB guidance on applying IFRS 9 *Financial Instruments* in light of the COVID-19 pandemic.

Corporate governance

HKEX launches e-training and publishes guidance on ESG reporting
The Hong Kong Stock Exchange (HKEX) published the following updated guidance materials on environmental, social and governance (ESG) reporting on 6 March:

- E-training;
- Guide for board and directors titled *Leadership role and accountability in ESG*;
- Step-by-step ESG reporting guidance titled *How to prepare an ESG report*; and
- Frequently asked questions series 18.

The updated guidance materials are launched to help issuers better navigate the evolving standards on ESG reporting. Please refer to the press release for details.

Restructuring and insolvency

Institute comments on consultation on contractual stays
The Institute issued a submission on 20 March, in response to a consultation paper, issued by the Hong Kong Monetary Authority, on 22 January. The consultation covers proposed rules to be made under the Financial Institutions (Resolution) Ordinance (Cap. 628) on contractual stays on termination rights, in financial contracts for authorized institutions.

The Institute's submission indicates general support for the stay rules to be implemented as soon as possible, especially in view of the current volatile financial markets and difficult economic environment. In terms of detailed comments, the submission suggests that the scope of the proposed stay could be made broader in certain respects.

Official Receiver's Office Circular No. 1/2020
The Official Receiver's Office (ORO) issued a new Circular No. 1/2020, which supersedes Circular No. 7/2017 and that took effect on 2 March 2020. Circular No. 1/2020, among other things, announces an increase in the maximum amount that provisional liquidators or liquidators

may retain in an ordinary bank account, without further authorization by the Official Receiver (OR), from HK$15,000 to HK$30,000.

In a meeting with the ORO towards the latter part of 2019, RIFEC's representatives had explained the practical difficulties that insolvency practitioners face in trying to opening bank accounts in the name of companies in liquidation. It was noted that a contributing factor could be that banks were not incentivized to open an account where the maximum amount that could be held in the account for any length of time was HK$15,000. Following on from these discussions, the OR agreed to raise the ceiling to HK$30,000.

Taxation

Institute issues further alert
The Institute issued another COVID-19 update alert on 2 April to notify members of revised tax deadlines and timetables, and other matters.

Announcements by the Inland Revenue Department
Members may wish to be aware of the following matters:

- Major changes to the profits tax return.
- Additional extended tax deadlines.
- Arrangements for issue of tax returns for 2019-20.
- Suspension of Service for Filing of Tax Return - Individuals through eTAX.
- Country-by-Country Reporting – Notification Deadline.
- Departmental Interpretation and Practice Note 39 (Revised) on *Profits Tax – Digital Economy, Electronic Commerce and Digital Assets*.
- Latest arrangements for public services.
- Clarification on Retail Sector Subsidy Scheme.
- Stamp Duty statistics (February 2020).

Legislation and other initiatives

Anti-money laundering notices
For the current lists of terrorists, terrorist associates and relevant person or entities under United Nations (UN) sanctions, members should refer to the Institute's anti-money laundering (AML) webpage, which is updated regularly. The UN Sanctions webpage of the Commerce and Economic Development Bureau contains consolidated lists of UN sanctions currently in force in Hong Kong.

AML/CFT guidance
For mandatory guidelines and information from the Institute on the Anti-Money Laundering/Counter-Terrorist Financing (AML/CFT) requirements for members, see the Institute's *Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants*. Member practices may also find the Financial Action Task Force's (FATF) *Guidance for a Risk-Based Approach for the Accounting Profession* to be a useful reference when developing their own risk-based approach to applying the AML/CFT requirements.

The Institute has posted frequently asked questions relating to AML monitoring, under the Practice Review part of the website.

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 Companies Registry.

The FATF published guidance, in October 2019, entitled, *Best Practices on Beneficial Ownership for Legal Persons*. This paper aims to provide suggested solutions to the disclosure of beneficial ownership, supported by cases and examples of best practices from delegations of member jurisdictions of the FATF.

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 210, available as a PDF on the Institute's website: *www.hkicpa.org.hk*

HITTING THE RIGHT NOTES

Most people can't imagine a life without music. Whether it's the soothing strings of a classical piece, the soaring vocals of a pop chart-topper or the thumping bass of a dance hit, listening and playing music can, sometimes, change one's life. Four Institute members tell Jeremy Chan about their musical journey

As a Chinese music enthusiast, Susanna Chiu enjoys playing her favourite songs on more than one instrument – she knows how to play the Chinese flute, piano, erhu and yangqin, a type of Chinese dulcimer. She also plays the Chinese drums. For her, music is an escape and the best stress-reliever. "It's easy to get too caught up in work. But when I listen to music, I become more in tune with myself and relax. It's almost meditative."

Indeed, Chiu isn't the only one who feels this way. Enjoying your favourite songs, even for as little as 15 minutes, can elevate your mood, increase sleep quality, improve memory and boost creativity. It also helps to reduce stress and anxiety – by up to 65 percent – according to research company Mindlab International. Learning a musical instrument, especially at a young age, also brings lifelong benefits. A study by Northwestern University identified correlations between a child's musical ability and verbal memory as well as reading skills. Those above the age of 60 were also found to have structural changes in their brains responsible for hearing and memory within four months of playing an instrument for an hour a week.

Chiu recognized the merits of playing music at a very young age with piano lessons. "I started learning the piano when I was in primary school. I was around seven or eight years old," remembers Chiu, former Director at Li & Fung Limited and Past President of the Hong Kong Institute of CPAs. But the costly piano lessons meant she had to take a break after starting secondary school. "Back then, learning the piano was a luxury, so classes were quite expensive," she says. But luckily for Chiu, another opportunity presented itself – all students at her school were required to learn a new instrument.

She took up the Chinese flute for its distinct sound and began exploring traditional Chinese music, eventually joining the school's Chinese orchestra. "I loved being a part of it," she says. "It's amazing when everybody's contribution comes together into a beautiful ensemble." She eventually brought it with her to the United Kingdom, where she attained her bachelor's degree in economics at the University of Sheffield. "I remember the walls of my residence were very thin, so I had to practice quietly to not disturb people," she says. It was there where she played in front of an audience for the first time. "There was a yearly festival for all the international students, and some of us gave performances," she remembers. One of her favourite songs to play was *Colourful Clouds Chasing The Moon* (彩雲追月), a tune written by 20th century Chinese composer Ren Guang. "I was always invited to play the flute on stage for all the other students, even though I

Susanna Chiu, former Director at Li & Fung Limited, began playing the Chinese flute in secondary school.

was an amateur," she laughs.

The thrill that came with performing live stuck with Chiu. After graduating, she decided to start learning the piano again and formed a band called Band 5 with other Institute members. A five-piece rock group, they practiced together in their free time and eventually performed live at the Institute's 2005 annual dinner. "I remember we performed at the Four Seasons Hotel, right after it opened," Chiu says. "We played *Let It Be* by The Beatles and hits by Beyond, a Hong Kong rock band. There's a short piano lead section in *Let It Be*, so I was quite anxious about playing that section. Luckily, I played everything correctly and the show went really well."

Chiu never forgot her roots in Chinese music and would frequent concerts performed by the Hong Kong Chinese Orchestra, the only professional full-sized Chinese orchestra in Hong Kong. In 2002, Chiu was appointed by the Hong Kong government to be a council member of the organization where she helped with governance, financial control and fundraising. "The chairman at the time noticed how often I went. They were also looking for a professional who loved Chinese music to help the organization," she says. Best of all, Chiu notes, she was able to attend as many shows as she wanted. During her six years as a council member, Chiu's knowledge of the music grew with each show she attended. "Previously, playing and listening to Chinese music was more of a hobby. Now I'm able to speak with different musicians and even the conductor. I understand how the whole orchestra plays and interacts with one another. I was also able to contribute my professional expertise to improve the governance of the orchestra. It was a fortunate appointment."

When Chiu is too busy to practice her instruments, she finds time to tune in. "I actively listen to music on my way to work and practice playing certain songs in my head. I would listen to them over and over again to figure out how to play them. Music simply helps me to recharge," she says.

In perfect harmony

When a young Rocky Lok received a harmonica as a gift from a relative, the curious student had no idea how the small instrument in his hands would have such a big impact on his life. Fast forward 40 years and a flurry of local and overseas performances later, the impassioned harmonica player has no plans to stop anytime soon. "The harmonica is an extension of my body," says Lok, Chief Financial Officer of Birdland KFC, Jardine Restaurant Group and an Institute member.

It was 1976, and he had just enrolled in King's College, one of Hong Kong's oldest government schools. He was selected to join the school's harmonica band. "I'd heard that the harmonica band had been a top school talent for many decades, so that naturally led me and my peers to join," says Lok. He recalls learning *March of The Men of Harlech*, the school's anthem, as his first song and performing it in the front of the school just before Christmas that year.

He graduated from King's College in 1981 and had built a special bond with four other students in different academic years who were all part of the school's harmonica band. Though they went to study in different universities, Lok kept in touch and practiced regularly with them, while he studied accounting at the then Hong Kong Polytechnic. After graduating in 1987, the five players decided to formalize their name, calling themselves the King's Harmonica Quintet. Playing mostly classical pieces, the quintet began playing shows around Hong Kong, with their first major show at the Hong Kong Arts Centre in April 1990 and at the Hong Kong City Hall in 1993. As Lok remembers, it wasn't always one big show after another. "From 1990 to 1993 we kept on practicing and played around Hong Kong, from dinners to shopping arcades to professional conferences," he says.

Their first overseas show took place in Yokohama in Japan in 1995 as part of the World Harmonica Festival. The group played the finale of Czech composer Antonín Dvořák's *String Quartet No. 12*, and came in second place. But their breakthrough moment took place in 1997, when the quintet entered the World Harmonica Festival in Trossingen, Germany. "The festival took place in late October, and it was freezing cold. I remember our lips being all chapped and bleeding – it was our first time playing during such extreme weather," Lok says. Despite those conditions, the quintet went on to perform the same piece they performed in Yokohama. This time, they won the competition, becoming world champions. "When it was announced that we were the winners, it was very emotional. There were tears in our eyes," he says.

Along with the quintet and other enthusiasts, Lok founded the Hong Kong Harmonica Association (HKHA) in 2002 and has spent the last almost two decades organizing harmonica music-making and

Rocky Lok, Chief Financial Officer of Birdland KFC, Jardine Restaurant Group, has been playing the harmonica for over 40 years.

Photography by Anthony Tung

cultural events in more than 20 cities across the world. While not all of the quintet remain on the board of the HKHA, they wish the association continued success in nurturing the city's harmonica movement in the decades to come. "We hope to take on a more advisory role then," Lok says.

Though he still meets the quintet to practice on a regular basis, Lok also enjoys practicing the harmonica on his own. He plays mainly classical music, but when it comes to listening to music, he has been studying the works of jazz artists such as Louis Armstrong, Toots Thielemans and George Gershwin. "I want to focus more on advanced theory to help with music creation, and also learn jazz pieces," Lok says. "My goal is to tackle the difficult pieces I've stayed away from all these years."

Lok, who brings a harmonica with him on every business trip, says anybody is able to learn it. "As long as you can breathe, you can produce a sound on the harmonica," he says.

Starting on a high note

Stan Tong dreams of one day becoming a proficient piano player – one who is able to not only play a wide variety of songs, but also simultaneously sing along with them.

Tong began singing as a secondary school student. He and his friends would regularly belt out their favourite Cantonese and Taiwanese pop songs at karaoke lounges in their free time. "I like singing songs by Taiwanese singers Jay Chou and David Tao. As for Hong Kong singers, I enjoy singing Hins Cheung and Khalil Fong – but Eason Chan will always be my favourite," says Tong, Managing Partner of Edward and Stan Global Advisory Limited and an Institute member. While studying accounting at The Hong Kong Polytechnic University in 2001, he joined a hall choir. "This was when I started to really enjoy singing, so I wanted to learn it professionally," he says.

He started his career at Deloitte in 2004, and in his second year, he decided to enrol himself in vocal training classes. "There were lots of vocal exercises. More than half the class would be dedicated to training or expanding my vocal range by practicing different scales," says Tong, who is a baritone. The latter part of the lessons were focused on analysing various hard-to-sing songs, particularly ones sung by Western singers. "I began listening to singers such as Bruno Mars, Robbie Williams, Whitney Houston and bands such as Maroon 5," he says. Tong, who has passed his grade seven vocal exams, is now focusing on passing his grade eight exams. As he notes, this requires him to perfect a rather intricate song by British artist Sam Smith. "His songs are very hard to sing, as he has a very wide vocal range," Tong says. "In fact, being able to perfectly sing his song *Lay Me Down* is a requirement for the grade eight

Stan Tong, Managing Partner of Edward and Stan Global Advisory Limited, started teaching himself the piano in 2010.

Photography by Anthony Tung

Andrew D'Azevedo has played the piano since he was five. He is pictured here playing his arrangement of *Harry Potter* and *Pirates of The Caribbean* at his firm's 2014 annual dinner talent competition.

vocal exam. I've learned a great deal from trying to sing his songs."

Tong credits his vocal teacher with helping him throughout the years. "I met my vocal teacher, Metternich Wong, during my days at PolyU's hall choir. He is such a great teacher, which is why I decided to have private vocal training classes with him."

Tong began teaching himself the piano in 2010, with the aim of accompanying himself while singing. He learned through YouTube tutorials for several years before deciding to sign himself up for formal classes in 2017. It's one thing to play the chords and notes correctly, and another thing to keep a constant rhythm while singing, according to Tong. "It's a challenge to synchronize your hands and sing while playing the piano," he says. "I never took formal piano exams as a kid, so it's a bit more difficult for me to grasp more complex songs as an adult."

But he says his passion for learning his favourite songs on the piano pushed him through difficulties since the beginning. The first song he ever learned to sing while playing the piano was David Tao's *Love Is Simple*, a song he grew up listening to. "I just told myself I needed to practice and wasn't too concerned about the difficulty. Nothing is ever too challenging if you love doing it," he says.

Though busy managing his new firm, Tong practices on his piano at home whenever he has time, and finds that playing and singing his favourite songs is the best way to unwind. "I always want to have music in my life," he says. He hopes to perform more, and would find it thrilling to busk around Hong Kong after perfecting more songs. "I would love to bring my piano and just sing to a crowd at Tsim Sha Tsui Promenade," Tong says, referring to a popular busking area for Hong Kong's musicians. "I hope

Credit: PwC

> "I remember thinking to myself 'no one really knows me here yet, so I've got nothing to lose – why not enter?'"

to one day express myself and my emotions through the piano."

The keys to happiness

As far back as Andrew D'Azevedo can remember, music has always been a fundamental part of life. Having begun piano lessons at the age of five in his native Australia, the young and curious D'Azevedo felt a strong connection to the instrument, leading him to keep practicing on his own. "My parents didn't force me to continue playing it – they just wanted me to have an extracurricular activity as a child," says D'Azevedo, a Tax Partner at PwC and an Institute member. "But I had a knack for it, so I kept at it."

Balancing schoolwork and studying classical music in his spare time, D'Azevedo climbed through the piano grades. At the age of 16, he attained his Licentiate in Music diploma with distinction, a certificate awarded by examination to outstanding candidates in the fields of musical performance and music theory. He was influenced and inspired by composers such as Claude Debussy, Frédéric Chopin and Sergei Rachmaninoff. "My preferred music is from the romantic, impressionist and modern eras of classical music," D'Azevedo says. "I really love Debussy's *Préludes*. He composed a set of 24, and I've learned to play a number of them."

While in secondary school, he also picked up the cello after his teachers encouraged him to learn a second musical instrument. "The piano is very much a solo instrument and I always wanted to play in an ensemble," he says. Indeed, he began playing the cello in ensembles in secondary school and also while in university. Though he briefly considered pursuing music as a full-time career, he studied Commerce at the University of Sydney in 2007, and after graduating, began his career at PwC Australia as a fresh tax graduate. But music would still play a part in his life, with D'Azevedo choosing to teach both the piano and cello to students part-time. "I loved being able to share my musical knowledge with other people," he says. "I'm also glad I didn't completely give up doing music during my university years, and especially when I started working."

After being seconded to PwC Hong Kong in 2014, D'Azevedo decided to stay. During his first year, he took note of a talent competition which was part of the firm's annual dinner, and decided to join. "I remember thinking to myself 'no one really knows me here yet, so I've got nothing to lose – why not enter?'" He arranged a mash-up of the main theme songs from *Harry Potter* and *Pirates of The Caribbean* and, as he remembers, flawlessly performed it to a stunned audience. "The judges enjoyed it and I was lucky enough to come away with a win," he says. "A lot of the people were surprised. I had just joined the firm, so I thought it was quite a good way to boost my profile by doing what I love." Since then, D'Azevedo has been appointed to be a judge, master of ceremonies and performer at each annual dinner.

He was also surprised to meet other fellow musicians at his firm and hopes to rehearse with them one day. "There are three violinists in my team who are quite proficient, so it would be interesting to have a jam session with them," he says. But music will always remain a personal thing for D'Azevedo, who looks forward to plugging in his earphones after a long day. "When things get busy and hectic at work, I always look forward to listening to music. It's my release."

Listening to your favourite music, even for short periods of time, can lead to an elevated mood, better sleep, improved memory and an increase in creativity.

TONY YEUNG Assurance Senior Manager at Moore

Like many fresh accounting graduates, Tony Yeung began his career at a Big Four firm. He later made the switch to Moore to put his skills to the test in a new environment. His promotion to Assurance Senior Manager brought along dizzying new challenges for the young auditor. He tells *A Plus* how he quickly learned to take on those obstacles

What is your current role and responsibilities? How is it going so far?
As Assurance Senior Manager at Moore, I'm in charge of one division of our assurance department. My division specializes in dealing with audit engagements of listed companies in Hong Kong. We also handle capital market transactions such as mergers and acquisitions and initial public offerings. I supervise my division's assurance managers to ensure they can complete their engagements smoothly. It has been challenging, as I have to oversee multiple engagements and clients. Though we've been working from home, I ensure my team is able to deliver on time. I run morning briefings through Skype or WhatsApp, and I also frequently call up our clients to make sure they're able to meet deadlines as well. The firm takes part in university career fairs, so I also help during these recruitment seminars. We talk to fresh graduates about the culture and work environment of Moore, and I get to share my work experience with the students in terms of how I grew as a fresh graduate working in the field of audit to a senior manager.

What inspired you to become an accountant? How did you start your career?
During secondary school, I studied advanced mathematics and physics – I didn't think of being an accountant until after the public exams. My best friend in school gave me some advice and made me realize my strengths, so I decided to major in professional accountancy at the Chinese University of Hong Kong. I was a science student, so it was difficult learning everything about accounting and economics at the start. After graduation, I joined one of the Big Four firms as an audit associate and was promoted to manager after five years. Eager to explore new possibilities, I decided to join Moore. A few friends asked why I left the Big Four, but I didn't think it was a step backwards. Though working at the Big Four equipped me with fundamental accounting and audit knowledge, my strengths and abilities made a greater impact at a medium-sized firm like Moore Hong Kong, which is also a part of a global accounting network. I was also presented with more opportunities for growth. I was promoted to senior manager within a year.

Where do you see yourself in the next five to 10 years?
I feel my 30s are the most valuable and energetic part of my life, so I would like to stay and grow at Moore. I hope to continue my profession in assurance, specializing in financial reporting.

What has been the biggest challenge you have faced in your career so far and how did you overcome it?
It would be taking on my new role of Assurance Senior Manager at Moore. The workload increased a lot, and there was more expectation from the partners. It was a tough period during the first few months, but I feel I'm getting better at prioritizing and handling multiple tasks now. I overcame these difficulties with help from those partners. They spent a lot of time sharing their past experiences with me and increased my confidence in fulfilling my responsibilities.

Which continuing professional development courses did you find to be the most useful to your job and why?
The updates on financial reporting standards are the most helpful in my day-to-day work as they provide detailed insight on the latest in the fast-changing world of financial reporting standards. The refreshment courses in general saves me a lot of time as the content is precise and the illustrative examples are practical in engagements.

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 has helped me to build a solid foundation in financial reporting, corporate finance, audit and taxation. I'd say it is crucial for all junior accountants to join the QP in the early stages of their career as it could be difficult to find time to study complicated concepts or learn new knowledge when you become part of middle management at a company.

SPOTLIGHT ON TV SHOWS

Institute members recommend their favourite shows to watch during this time of social distancing

The Ronda Rousey Story: Through My Father's Eyes

"I recommend the Netflix documentary *The Ronda Rousey Story: Through My Father's Eyes*. Ronda is a famous Ultimate Fighting Championship fighter and has been a skilled judo fighter since her teenage years. This documentary captures her struggles and triumphs over her career. It is definitely worth watching, even if you aren't a fan of mixed martial arts," says Wong.

- Preston Wong, Manager, Audit, Grant Thornton

Ronda Rousey (right)

Gordon Ramsay

"I've been cooking and experimenting with new recipes featured on Gordon Ramsay's YouTube channel. His channel is full of videos showing him cooking quick and simple dishes that are easy to follow and also very tasty and healthy," Chun says. "The ingredients he uses are typical kitchen staples, allowing anybody to stir up a quick and healthy lunch or dinner in less than 30 minutes. Working from home has definitely proven to be a challenge for all of Hong Kong, so these recipes have given me something to look forward to. These videos have also inspired me to look out for different ingredients while making my grocery runs."

- Desmond Chun, Senior Tax Associate, PwC

Gordon Ramsay

Money Heist

"I have been watching one of Netflix's hit series, *Money Heist*. As its name suggests, it is about a group of criminals pulling off crazy heists," says Chan. It is directed by Spanish television producer Álex Pina. The costume worn by the show's robbers, a red jumpsuit and masks inspired by surrealist artist Salvador Dalí, has been used in real-life political protests in Lebanon, Iraq, France, Puerto Rico, and Chile. "The show is in Spanish, so I suggest watching it in its original language for the full experience. Highly recommend this one!" adds Chan.

- Randel Chan, Senior Associate at PwC


A fan wearing the costume seen in Money Heist

EYES & EARS

Institute members on what music they are currently listening to and what books are worth reading

Whitney Houston

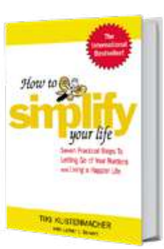
What I'm listening to

- Stan Tong, Managing Partner of Edward and Stan Global Advisory Limited

I've been listening to Whitney Houston's *The Greatest Love Of All*. I learned about this song while practicing for my grade 5 vocal exam. I was quite touched by the lyrics, as the song talks about having faith in our future and becoming a better society.

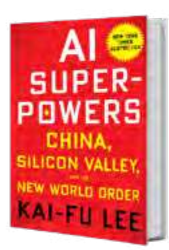
Read more about Stan Tong and other CPAs who play musical instruments on "Hitting The Right Notes" on page 46.

What I'm reading



I am currently reading *How to Simplify Your Life: Seven Practical Steps to Letting Go of Your Burdens And Living A Happier Life* by Tiki Kustenmacher. In seven steps, the book explains how to get rid of unnecessary things and unload the burdens of modern life. Life can get quite complicated, and this book teaches you how to make it simple, happy and healthy.

- Ron Pau, Senior Manager, Advisory, Grant Thornton



One of the books I have read recently is *AI Superpowers* by Kai-Fu Lee. The book provides a macro view of the artificial intelligence scene, the Sino-American competition and the advantages and disadvantages that each country has over the other. It also provides interesting case studies on why certain start-ups excel or fail in Mainland China.

- Kane Wu, Co-Founder and CEO, ThinkCol Transform Limited

Many of us are using the extra time at home to binge on "box sets" on Netflix, but why not take the time to plough through one of Harvard Business Review's definitive collections? *HBR's 10 Must Reads Ultimate Boxed Set* has compiled some of the most important ideas on management into a 14-volume paperback series. Readers may find one of the books, *HBR's 10 Must-Reads on Change Management*, particularly pertinent given the inevitability of change both now and post-virus.

- Recommended by *A Plus* editors

The most productive people ever

Hong Kong's humorist on why accounting skills are always handy – even in the most perilous of times

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

One of the interesting things about the recent virus scare is that society has changed its opinion about who might be its most important members.

Before: Captains of Industry.

Now: Deliverers of Toilet Paper.

While that deduction is not entirely logical, most of us would agree that it's healthy to review society's priorities.

Who really are the biggest contributors to modern society?

Accountants might say that they and the rest of the business community are: money makes the world go round, right? Without financial activity, most jobs disappear, and the world becomes unrecognizable.

Others would argue that this is a shallow, materialistic view, because it is artists and spiritual leaders who truly nurture the human spirit.

"When you are a genius, you do not have the right to die, because we are necessary for the progress of humanity," said Spanish surrealist artist Salvador Dalí, two years before he died.

Certainly, artists can be very productive – Dalí is believed to have signed tens of thousands of blank sheets of art paper, making them more valuable than banknotes.

A book on the most productive people in history also highlights artists, pointing out that German composer Georg Philipp Telemann composed 200 overtures in two years, while Beethoven spent six years on just one: his 9th Symphony.

But that just shows the problem: as well as being productive, artists need to have commercial success. Probably Telemann's own ghost can't hum one of his tunes, whereas even my dog can howl the famous part of Beethoven's 9th, although his verb endings are a bit dodgy on the bit where the choir sings in German.

The ancient Greeks felt that poets were the natural leaders of society – which made perfect sense to me until I set up a poets and writers association and met large numbers of them. They may have passion, but they can't even manage their own drinks bills.

Books on management say that the world's religious leaders, such as Jesus, Mohammad, and Buddha, have created the longest-lasting organizations in the world, and the ones which have done the most charity work.

That's a fair point. But even Jesus famously pointed out that spiritual and secular parts of life should be managed separately.

A few years ago, a man wrote an essay in the *New Scientist* magazine suggesting that scientists should become world leaders. No one was more horrified than scientists themselves, many of whom have the social skills akin to OGLE-2005-BLG-390Lb, an ice planet 21,500 light years away from the nearest pub.

What about medical staff, who have become so high profile lately? The skills of hospital doctors are clearly of high value – but their presence and the cost of all their equipment is often financed by taxes.

So that brings us back to accountants. The movement of money underlies everything.

A British academic named Trevor Gambling famously compared the place of accountants in modern societies with wizards in less advanced ones. Both magic and accounting involve the collection of data, the processing of multiple elements into a coherent whole, the employment of specialized jargon, and the interpretation of results, he said.

Dalí may create interesting works of art, but it's only when someone with accounting skills places a value on them that they find their place in society.

And both artists and accountants can be highly creative.

Dalí would pay for expensive restaurant meals by writing cheques and then adding a little sketch on the back, knowing that the scrawled drawing meant that the cheque would never be cashed.

That's just the sort of entirely legal but financially clever trick that a good accountant would come up with.

So ultimately, we can perhaps leave the last word to a quote from the famous children's book *The Wind in the Willows*: "It takes all sorts to make a world."