



DRIVING BUSINESS SUCCESS

Issue 6 Volume 17 June 2021

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TESTING TIMES

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“The Institute wishes for the continued smooth regulation of the profession, and hopes the government and the FRC will consider knowledge transfer and experience sharing, and setting up a tripartite task force to oversee the transition.”



Dear members,

The announcement this month by the Secretary for Financial Services and the Treasury about further changes to the regulatory regime for our profession came as a surprise. The proposals will have significant impacts on our profession and the Institute's operations.

The Institute has long advocated for enhancing Hong Kong's regulatory regime, in a measured and considered manner, after consultations and assessment of all its impacts. The transfer of regulatory functions relating to public interest entity (PIE) auditors to the Financial Reporting Council (FRC) in October 2019, and the new oversight arrangements for the Institute's operations across a range of areas, strengthened the regulatory regime, benefitting Hong Kong's status as an international financial centre. We therefore believe that there are still a number of areas that need to be clarified regarding the rationale for further changes to the regulatory regime.

The proposals represent a fundamental change in the regulatory landscape of the accounting profession and will affect the business community, especially our members. Any changes should be undertaken after thorough

consultation with stakeholders to gauge their views and assess the implications of the reform.

The government should provide more information, notably about the transitional arrangements and period. The Institute wishes for the continued smooth regulation of the profession, and hopes the government and the FRC will consider knowledge transfer and experience sharing, and setting up a tripartite task force to oversee the transition. Changes should also be implemented in stages to ensure the effectiveness of the reforms can be properly assessed.

The Institute researched the regulatory systems in a number of jurisdictions, including other major international financial centres to determine how the proposals fit in with international practices.

There is no one approach, although generally the focus is on the regulation of PIE auditors. Other jurisdictions have introduced independent regulation of PIE auditors in the last 20 years, but regulatory models for the whole of the accounting profession vary between jurisdictions. The regulatory models developed and applied in individual jurisdictions reflect legal and constitutional systems and structures that affect the organization

of the profession, and are also influenced by other factors including statutory audit requirements that vary from place to place.

In some jurisdictions, professional bodies retain, or have been delegated, certain responsibilities in the regulation of non-PIE auditors and generally oversee the professional conduct of non-practising members. While in other jurisdictions, all functions of the professional bodies come under the oversight of a government appointed authority.

To facilitate discussion and feedback collection, the Institute has arranged two members' forums on the proposals. The first, on 28 June, saw representatives of the Financial Services and the Treasury Bureau introducing the proposals, and their rationale behind the changes and take questions from members viewing the webinar. The second forum will take place on 6 July, where representatives from the FRC will explain their roles if the changes go through. Recordings of both forums will be uploaded and made available via the Institute's website.

As well as these two forums, the Institute is preparing an online survey to collect feedback. More information on the survey will be available soon.

Raymond Cheng FCPA (practising)
President

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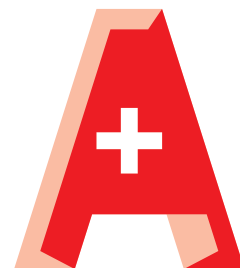
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DRIVING BUSINESS SUCCESS

About our name

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



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NEWS

Institute news Business news

Institute holds two members' forum on regulatory regime reform proposals

On 8 June, Christopher Hui, the Secretary for Financial Services and the Treasury, published a blog post titled "Further reform of regulatory regime of accounting profession" on the Financial Services and the Treasury Bureau's (FSTB) website. The proposals will see the Financial Reporting Council's (FRC) investigation and disciplinary powers expanded to cover all CPAs and practice units, and its inspection power to cover all practice units. The registration of practice units and public interest entity auditors, and the issuance of practising certificates will also be vested with the FRC.

The amendment bill will be introduced to the Legislative Council within this legislative year and the government aims

to pass it and the subsidiary legislation required to enable the changes by June 2022. The government intends for the reforms to be effective from Q3 2022.

On 28 June, the Institute held a virtual Members' Forum where representatives from the FSTB went through the proposals and answered questions on the reforms. A recording of the forum will be available soon.

The Institute will hold a second forum, featuring representatives of the FRC discussing how they plan to regulate the profession, on 6 July. Register now.

For details on the Institute's views on the proposals as well as updates from the Council's meeting with the Secretary for Financial Services and the Treasury, and

his team from the FSTB, please refer to the email sent to members on 21 June.

CPA Virtual Run 2021 – highlights out now

Photos from the CPA Virtual Run 2021 are now available on the Institute's website, including shots of the prize presentation ceremony and CPA runners in action. Read the stories of some of the runners who took part in this year's race on page 48.

Minutes of Council meetings

The abridged minutes from the April and May Council meetings are now available for members to read. They can be found on the "Members' Areas" of the Institute's website.

Resolutions by agreement

Chan Chi Kwong, Dickson CPA (practising) and CF Partners Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 110.1 A1(c) and R113.1 of the Code of Ethics for Professional Accountants.

The respondents issued an accountant's report for a solicitors' firm under the Accountant's Report Rules. In conducting the reporting engagement, the respondents failed to comply with the Accountant's Report Rules and the Institute's Practice Note 840 (Revised) *Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules*. They did not perform adequate procedures to identify (i) overdrawn client money from client bank accounts by the firm; and (ii) drawing of money from client bank accounts by the firm for disbursements not yet expended. Furthermore, they did not adequately perform

checks to identify an overpayment into the client bank accounts by the firm.

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

1. The respondents acknowledge the facts of the case and the areas of non-compliance with professional standards;
2. The respondents be reprimanded; and
3. The respondents jointly pay an administrative penalty of HK\$15,000 and costs of the Institute of HK\$15,000.

Cheng & Cheng Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 500 *Audit Evidence*, HKSA 550 *Related Parties*, HKSA 560 *Subsequent Events* and the fundamental principle of professional competence and due care in sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants.

Cheng & Cheng audited the financial statements of a private company for the years ended 30 June 2015 and

30 June 2016. The engagement director of the audits ceased to be a member of the Institute in 2020.

For the 2015 financial year, Cheng & Cheng issued an unmodified auditor's report on the financial statements initially prepared by the company. These financial statements were later replaced by a revised set of financial statements, on which Cheng & Cheng issued a modified auditor's report. In conducting the audit procedures supporting the auditor's report on the initial financial statements, Cheng & Cheng failed to obtain sufficient evidence to support the accounting treatment of a revenue item, and to properly enquire about the existence of significant related party transactions. In addition, in reporting on the revised financial statements, Cheng & Cheng failed to draw attention to the changes made to the financial statements and to the initial auditor's report issued.

For the 2016 financial year, a wrong set of the company's financial statements were initially printed, and Cheng & Cheng carelessly allowed them to be issued with the practice's unmodified auditor's report attached. After discovery of the mistake shortly afterwards, a set of correct financial statements with attachment of a modified auditor's report of Cheng & Cheng was issued in replacement of the initial financial statements.

For both of the years, Cheng & Cheng failed to take appropriate action to prevent reliance on the initial auditor's report that had been replaced, when management had not acted adequately to this effect.

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

1. Cheng & Cheng acknowledge the facts of the case and the areas of non-compliance with professional standards;
2. Cheng & Cheng be reprimanded; and
3. Cheng & Cheng pay an administrative penalty of HK\$50,000 and costs of the Institute of HK\$15,000.

Edmund Siu CPA (practising), Yip Kai Yin CPA and Elite Partners CPA Limited

Complaint: Failure or neglect by Siu and Elite to observe, maintain or otherwise apply HKSA 230 *Audit Documentation*, HKSA 500 *Audit Evidence* and HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. Failure or neglect by Yip to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.

Elite audited the consolidated financial statements of China National Culture Group Limited (formerly known as China Railsmedia Corporation Limited), a Hong Kong listed company, and its subsidiaries for the year ended 31 March 2014. Siu was the engagement director and Yip was the engagement quality control reviewer (EQCR).

The Institute received a referral from the Financial Reporting Council (FRC) about deficiencies in the audit. The financial statements included goodwill arising from the group's acquisition in 2012 of a business that engaged in the development and operation of a mobile phone application for restaurant reservations. The application was under development and had not been launched as at 31 March 2014.

In assessing impairment of the goodwill, the respondents

placed reliance on a cash flow forecast of the acquired business prepared by management. In doing so, they failed to obtain sufficient appropriate evidence to support the estimated number of subscribers to the application and subscription price adopted in the forecast. The respondents also failed to prepare sufficient audit documentation on the expected launch date of the application, and their evaluation of the continued validity of the group's agreement with a third party for marketing the application.

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

1. The respondents acknowledge the facts of the case and the areas of non-compliance with professional standards;
2. The respondents be reprimanded; and
3. Each of Siu, Yip and Elite pay an administrative penalty of HK\$50,000 to the Institute, and they jointly pay the costs of the Institute and the FRC totalling HK\$289,594.80.

Tsoi Yuen Hoi CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* and HKSA 500 *Audit Evidence*.

Tsoi audited the financial statements of a private company for the year ended 31 March 2019. He failed to prepare adequate audit documentation of his understanding of the nature of the company's business. In addition, Tsoi failed to obtain sufficient appropriate audit evidence to support that revenue from sales of goods was correctly recorded in accordance with the criteria for recognizing sales, and that purchases included in the financial statements did occur.

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

1. Tsoi acknowledge the facts of the case and areas of non-compliance with professional standards;
2. Tsoi be reprimanded; and
3. Tsoi pay an administrative penalty of HK\$20,000 and costs of the Institute of HK\$15,000.

Disciplinary findings

KPMG, Fung Kwong Ming CPA, Wong Sau Ling CPA and Tse Hau Yin, Aloysius CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply Statement of Auditing Standards (SAS) 100 *Objective and General Principles Governing an Audit of Financial Statements*, SAS 230 *Audit Documentation*, SAS 300 *Audit Risk Assessments and Accounting and Internal Control Systems*, SAS 400 *Audit Evidence*, SAS 440 *Representations by Management* and SAS 460 *Related Parties*.

KPMG was the auditor of Moulin International Holdings Limited (subsequently known as Moulin Global Eyecare Holdings Limited) for the three years ended 31 March 1999, 2000 and 2001. It expressed unqualified audit opinions on the financial statements of the company and its subsidiaries

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(collectively group) for those years. Fung was the engagement partner in the 1999 audit and Wong was the engagement partner in the 2000 and 2001 audits. Tse was the concurring review partner in the audits for the three years.

In 2005, trading of the group's shares on the Hong Kong stock exchange were suspended and provisional liquidators were appointed for the company after it defaulted on repayment of its bank loans. The liquidators uncovered apparent accounting irregularities and certain senior personnel of the company were arrested. Having considered the available information, the Council of the Institute then directed an investigation under the Professional Accountants Ordinance (PAO) be conducted into the audit of the group's financial statements for the year ended 31 December 2003, which was conducted by another auditor.

In 2008, the Council considered information revealed in the liquidators' legal actions and expanded the scope of the investigation to cover, among other things, the audits of the group's financial statements for the years ended 31 March 1999 to 2001 conducted by KPMG. An Investigation Committee was subsequently formed. Investigation of the auditor engaged during the years that led up to the aforementioned loan default was delayed as a result of audit staff departure and seizure of certain audit working papers by the authorities. This impacted the progress of the investigation of KPMG.

In March 2018, the Investigation Committee issued a report and found that the respondents failed to have proper regards for the technical and professional standards expected of them in the audits for the three years. There were deficiencies in the audit procedures performed on prepayment of subcontracting charges, trade receivables, other receivables and PRC tax exposures. On the basis of the findings set out in the Investigation Committee's report, a complaint was lodged against the respondents under section 42C(1) of the PAO.

Decisions and reasons: The respondents were reprimanded. In addition, the Disciplinary Committee ordered KPMG, Fung, Wong and Tse to pay penalties of HK\$400,000, HK\$100,000, HK\$150,000 and HK\$50,000 respectively. Furthermore, the respondents were ordered to jointly pay costs of disciplinary proceedings in the sum of HK\$215,672. When making its decision, the committee considered the particulars in support of the complaint, the respondents' personal circumstances and the parties' conduct throughout the proceedings.

Hsu Yuk King, Mercedes CPA (practising) and Kwong Kam Kwan, Alex CPA (practising)

Complaint: Failure or neglect by Hsu to observe, maintain or otherwise apply HKSA 500 *Audit Evidence* and HKSA 230 *Audit Documentation*. Failure or neglect by Kwong to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.

Hsu was the engagement director, and Kwong was the EQCR, in an audit carried out by Andes Glacier CPA Limited on the consolidated financial statements of a Hong Kong listed company and its subsidiaries for the year ended 31 March 2017. The audit was selected for review in 2018 as part of the

Institute's practice review.

The practice reviewer identified significant deficiencies in the audit procedures carried out under Hsu's charge on impairment assessment of cash-generating units and the associated goodwill, valuation of biological assets, accounting treatment of the issuing costs and effective interest of certain bonds, and distribution expenses. Kwong failed to perform an effective engagement quality control review to evaluate the significant judgements made and conclusions reached by the audit team in the above audit areas. In addition, certain working papers shown to the reviewer during the practice review were not included in the originally assembled audit files.

Decisions and reasons: The Disciplinary Committee reprimanded the respondents. In addition, the committee ordered Hsu and Kwong to pay a penalty of HK\$150,000 and HK\$80,000 respectively. The committee further ordered Hsu and Kwong to pay costs of disciplinary proceedings of HK\$63,141 and HK\$32,715 respectively. When making its decision, the committee took into consideration the particulars of the breaches committed in this case and the respondents' early admission of the complaint.

Ng Ka Hong CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.

Ng was the EQCR for a corporate practice's audit of the consolidated financial statements of China E-Learning Group Limited (currently known as China E-Information Technology Group Limited), a Hong Kong listed company, and its subsidiaries (collectively group) for the year ended 31 December 2014. The corporate practice, which has now been de-registered, expressed an unmodified auditor's opinion on the consolidated financial statements of the group and on the company's balance sheet.

The Institute received a referral from the FRC about deficiencies in the audit. The audit team failed to obtain sufficient audit evidence to support that there was no impairment of significant amounts due by certain subsidiaries included in the company's balance sheet. In addition, the audit team failed to perform proper audit procedures in respect of two convertible bonds issued by the group during the year to settle certain existing liabilities. As EQCR, Ng failed to adequately evaluate the audit team's judgements and conclusions reached in those areas.

Decisions and reasons: The Disciplinary Committee reprimanded Ng. In addition, Ng was ordered to pay a penalty of HK\$150,000 and costs of the Institute and the FRC totalling HK\$100,222. When making its decision, the committee took into account the impact of Ng's audit deficiencies on the reputation of the profession, the fact that Ng committed similar deficiencies in case after case, and the public interest involved.

Details of the resolutions by agreement and disciplinary findings are available at the Institute's website.

U.K. AUDIT REFORMS FOR PUBLIC INTEREST ENTITIES COULD BACKFIRE, SAY ACCOUNTANTS

Accountants have warned that new proposals by the United Kingdom government to drastically increase the number of companies subject to stricter governance standards could push audit firms and their regulator to breaking point. The U.K. government has proposed widening the definition of public interest entities (PIE) to include entities such as companies listed on the Alternative Investment Market, a sub-market of the London Stock Exchange, private companies, universities and charities. The move would double the number of entities and would make it difficult for smaller companies to find auditors, even if smaller firms are hired to audit PIEs. "From a regulator's point of view and from a market point of view, I think this will be strained to the point of falling over," Iain Wright, Managing Director at the Institute of Chartered Accountants in England and Wales, told the *Financial Times*.

WORKERS MORE OPTIMISTIC ABOUT THE FUTURE, ACCORDING TO PWC REPORT

Workers worldwide are more optimistic this year about the future world of work a year into the pandemic, but expressed job security concerns, according to PwC's *Hopes & Fears 2021* report released last month. The study surveyed 32,517 people during the period of 26 January to 8 February, including business owners, full-time and part-time workers, contract workers and students across 19 countries. While 50 percent of respondents indicated having a positive outlook of the future and 64 percent said that technology will provide opportunities, 60 percent noted that automation is putting jobs at risk. The study surveyed 503 people in Hong Kong and found similar results, with 56 percent considering income to be the most important factor of a job, compared to 54 percent globally.

LISTED COMPANIES MUST HAVE AT LEAST ONE FEMALE BOARD MEMBER

Hong Kong-listed companies must appoint at least one female director by 2025 or face penalties, under a new proposal put forward by the Hong Kong Stock Exchange (HKEX) in a bid to catch up with progress in gender diversity efforts internationally. The new ruling, effective 1 January 2022, will provide existing listed entities with a three-year window to comply, and would require all new listing candidates to have a woman on their boards at the time of listing. Penalties can include a public reprimand, a denial of access to fundraising facilities, training, suspension of trading and a delisting. The proposal, which has been met with both support and opposition, comes as the city sees almost a third of all listed companies consisting of an all-male board as of the end of last year, according to HKEX data.



HKMA EXPLORING DIGITAL CURRENCY IN NEW FINTECH PLAN

The Hong Kong Monetary Authority (HKMA) will investigate the practicability of introducing a digital currency in the city over the next 12 months. The move, part of the HKMA's plan to stay up to speed with other global central banks considering digital currencies, was announced by Eddie Yue, Chief Executive of the HKMA, during the launch of "Fintech 2025," its four year plan, on 8 June. The study will look at concerns surrounding users' privacy, security and anti-money laundering. "Hong Kong people, nowadays, are more willing to use digital banking services. In addition, many overseas central banks have studied digital currencies. It is the right time for the HKMA to explore if we should have an e-Hong Kong dollar," said Yue.

SALES OF ESG BOND FUNDS HIT US\$54 BILLION IN FIRST FIVE MONTHS

Investors have put US\$54 billion into environmental, social and governance (ESG) bond funds globally in the first five months of the year, according to financial services company Morningstar. The figure is expected to surpass the almost US\$68 billion invested in all of 2020 this year. The rising demand is driven partially by millennial and young investors hoping to see their money do good and generate returns, according to Bryn Jones, Fund Manager at Rathbone Brothers Plc, which runs the Rathbone Ethical Bond Fund, one of the oldest and largest ESG fixed income funds, reports the *Financial Times*. Demand for ESG bond funds is mainly centred in Europe, but other regions such as the United States were starting to see interest, according to Jose Garcia-Zarate, Associate Director at Morningstar. In the U.S., sales of ESG bond funds stood at US\$4.75 billion in the first five months of 2021, compared with US\$5.92 billion in the whole of last year.





PWC TO INCREASE GLOBAL HEADCOUNT BY **100,000** WITHIN THE NEXT FIVE YEARS

PwC plans to invest US\$12 billion to increase its global headcount by 100,000 over the next five years by creating new roles aimed at helping its clients tackle issues in ESG and in artificial intelligence. The new staff members will be direct hires from competitors and come from mergers and acquisitions the firm completes, according to Bob Moritz, PwC Global Chairman. The plan, announced on 15 June, reinforces the firm's and other Big Four firms' plans to have ESG advisory become part of their core business lines as investors and regulators become more critical of companies' impact on the environment and their diversity initiatives.

CHINESE TECH LISTINGS DOWN **60%**

GLOBALLY IN VALUE IN SECOND QUARTER

Listed Chinese technology companies have seen their stock market value fall by 60 percent on exchanges worldwide in the second quarter of the year as Mainland regulators clamp down on the sector, according to the *Financial Times*. Initial public offerings (IPOs) by Chinese tech companies have raised just US\$6 billion on bourses worldwide since April, a figure down by two-thirds from the first quarter. The downturn comes as regulators on the Mainland tighten their grip on Chinese tech groups, with the delay of Ant Group's US\$37 billion IPO in November 2020 also signalling a push by Mainland authorities to reprimand tech groups for what they believe to be monopolistic practices.

XPENG HOPING TO RAISE HK\$17.6 BILLION IN HONG KONG LISTING

Chinese electric vehicle maker Xpeng is aiming to raise up to US\$2.3 billion when it launches its dual primary listing on the Hong Kong Stock Exchange next month. The company is expected to price its IPO at US\$180 a share and sell 85 million shares in what is expected to be the fifth largest flotation this year, behind IPOs by video-sharing mobile app Kuaishou Technology, logistics company JD Logistics, Internet and technology company Baidu and video-sharing website Bilibili. Xpeng's Hong Kong IPO is expected to raise more than double the US\$1.1 billion it raised when it listed on the New York Stock Exchange in August last year. Shares will start trading on 7 July under the stock code 9868.

FWD GROUP APPLIES FOR U.S. IPO

Hong Kong-based insurer FWD Group has applied for an initial public offering (IPO) in the United States, in what could be one of the year's biggest listings by a Hong Kong company. The insurance group, which was founded in 2013 by the son of business magnate Li Ka-shing, Richard Li, said on 17 June that the IPO price range and number of American depositary shares had not yet been determined, and that the timing of the listing was subject to approval by the U.S. Securities and Exchange Commission (SEC). FWD's holding company PCGI Intermediate Holdings said it had made a confidential filing with the U.S. SEC for the listing. The IPO application comes after rumours that the insurer was listing had been circulating in the market for over two years.

U.K. REGULATOR BANS CRYPTO EXCHANGE BINANCE

The Financial Conduct Authority (FCA) has banned Binance, one of the world's largest cryptocurrency exchanges, from conducting any regulated activity in the U.K. The move comes as regulators continue cracking down on the cryptocurrency industry amid concerns relating to its role in illicit activities such as money laundering, fraud and often lacklustre customer protection. In a notice, which came on 25 June, the U.K.'s financial watchdog also issued a warning to consumers about the platform and its London-based affiliate, Binance Markets Limited. The trading of cryptocurrencies is not directly regulated in the U.K., but other related activities such as selling derivatives do acquire approval. The U.K. ban comes after Japanese regulators sent a warning to Binance on 24 June, noting the platform may be operating in the country without proper authorization.

BEYOND THE



With the growing importance of integrating good governance with environmental and social factors, the Institute's Best Corporate Governance Awards is getting a new name. To mark the awards' evolution, a panel of experts discuss what happens when sustainability factors are ignored as well as ways for organizations to successfully achieve their ESG vision. **Nicky BurrIDGE** reports.

Oil giant Royal Dutch Shell was recently ordered by a court in the Netherlands to cut its global carbon emissions by 45 percent compared with 2019 levels by the end of 2030. The ruling highlights the growing need for companies to focus on the environmental and social aspects of environmental, social and governance (ESG) to manage risk and ensure their business models are sustainable.

Companies are facing pressure on a number of fronts to improve their performance in this area, while doing so can also open up new business opportunities and improve their long-term performance.

BOTTOM LINE



SPEAKERS: **(From left)**

RICKY CHENG FCPA,
Director – Head of Risk
Advisory at BDO and member of
the BCGA Organizing Committee
and the BCGA Review Panel

PATRICK ROZARIO,
Managing Director, Moore Advisory
Services Limited, and member of
the BCGA Organizing Committee
and Chair of the BCGA Review Panel

LOREN TANG FCPA (practising),
Director at KLC and Chair of the
BCGA Organizing Committee and
member of the BCGA Review Panel

PETER TISMAN,
Director, Advocacy and Practice
Development at the Institute

EDDIE NG CPA,
Principal, Business Reporting and
Sustainability at KPMG and member
of the BCGA Review Panel

Loren Tang FCPA (practising), Director at KLC and Chair of the Hong Kong Institute of CPAs' Best Corporate Governance Awards (BCGA) Organizing Committee and a member of the BCGA Review Panel, says: "We have seen over the years that companies that don't manage their ESG risks can have financial losses arising from them. We know a lot of investors now include the ESG performance of a company in their investment decision-making."

Ricky Cheng FCPA, Director – Head of Risk Advisory at BDO and member of the BCGA Organizing Committee

and the BCGA Review Panel, points out that companies – particularly those in the manufacturing and industrial sectors that fail to focus on sustainability – run the risk of incurring legal or regulatory action and significant fines. For example, oil company BP paid penalties and claims totalling nearly US\$62 billion for the Deepwater Horizon disaster, while Volkswagen's emissions testing scandal cost it US\$33 billion in fines and vehicle refits.

Alongside the financial penalties, incidents such as these also cause significant reputational damage,

magnified by social media. At the same time, there is growing pressure from stakeholders, with both consumers and investors placing an increased emphasis on ESG.

Meanwhile, as many economies strive to achieve net zero carbon emissions within the next 20 to 30 years, companies are having to focus their own strategies on transitioning to low carbon products and services. "Customer preferences change over time, and companies need to respond to market needs to produce more energy-efficient or CO₂-saving products, as well

ROUNDTABLE

Best Corporate Governance and ESG Awards



as making their fixed assets more resilient to climate change,” Cheng says.

Patrick Rozario, Managing Director, Moore Advisory Services Limited, and a member of the BCGA Organizing Committee and Chair of the BCGA Review Panel, adds that companies must also pay attention to ensure their products do not have a negative social impact. He gives the example of a brokerage firm allowing pensioners to open margin accounts. “They must conduct a risk assessment on the suitability of investors, as the financial risk can be very high with margin accounts.”

ESG is also an increasingly important aspect of risk management. Peter Tisman, Director, Advocacy and Practice Development at the Institute, points out that many of the top risks that companies face are now environmental risks, such as climate change and natural disasters.

Eddie Ng CPA, Principal, Business Reporting and Sustainability at KPMG and a member of the BCGA Review Panel, adds that companies that incorporate environmental and social factors, as well as financial ones, into their enterprise risk management obtain a more

holistic picture, enabling them to make better decisions. “There are opportunities, such as catering for changing market demands, which can create a competitive advantage for a company, but it will miss these opportunities if it does not take environmental and social factors into consideration. This is part of the business case for good ESG,” she says.

Evolving rewards

There is a growing focus from regulators, both in Hong Kong and internationally, on ESG.

Tisman points out that the international regulatory body for stock exchanges, the International Organization of Securities Commissions, has spoken about an urgent need for globally consistent, comparable and reliable sustainability disclosure standards to be introduced. In Hong Kong, the Securities and Futures Commission (SFC) has recently conducted a consultation on the management and disclosure of climate-related risks by fund managers, under which fund managers would have to take climate-related risks into consideration in their investment and risk management processes. “There is a movement around the

world towards more active investor participation and the issuing of stewardship codes, and this pressure is being felt in Hong Kong as an international financial centre,” he says. Ng points out that the Hong Kong Monetary Authority and the SFC have indicated that they will require listed companies to adopt climate-related disclosures aligned with those set out by the Task Force on Climate-related Financial Disclosures by 2025.

In response to the growing focus on ESG among organizations, the Institute is renaming the awards this year to the “Best Corporate Governance and ESG Awards.” “Institutional investors and stakeholders want to understand how organizations address environmental and social matters,” Rozario explains. He adds that the new name also reflects the importance of integrating good governance with environmental and social factors, rather than treating the two areas separately.

The Institute monitors trends in the market to ensure the awards remain relevant. Rozario notes that the awards expanded from being purely corporate governance awards to include sustainability in 2011, given the clear international trend

“At the end of the day, you can’t have good corporate governance without good ESG, and you can’t have good ESG without having a good governance structure above it.”



towards increased sustainability reporting, with more Hong Kong listed companies starting to include sustainability or corporate social responsibility sections in their annual reports, or even publishing separate reports. In the following year, the Hong Kong Stock Exchange issued its first guidance on ESG reporting which gave a further push to listed companies.

“In 2011, we introduced one overall award for sustainability and social responsibility reporting. Interest grew very quickly and, in the following few years, we expanded this section of the BCGA,” Tisman says. He explains that the renamed awards will look to identify companies that are doing well at both corporate governance and ESG, and moving towards greater integration of these elements. “At the end of the day, you can’t have good corporate governance without good ESG, and you can’t have good ESG without having a good governance structure above it.” Tang adds: “Over the years we have seen more companies producing very good ESG reports, and we have devoted more resources into looking at up to 500 reports annually as part of the awards. The renaming of the awards also reflects this change.”

Starting from the top

In order for companies to successfully adopt good ESG practices, Tang thinks it is important to have buy-in from the management to drive a top-down approach. “It is very important that you set the tone from the top and identify the factors and risks that have most strategic significance to the company’s survival and integrate them into the corporate strategy, so that the risks are not looked at in silos,” she says.

Ng adds that it is also important that leadership takes ESG seriously and does not simply view it as a box-ticking exercise, which has a cost but does not bring any value. “When you have leadership buy-in, it is easier to implement policies within a company and get buy-in from other stakeholders,” she says.

Tisman agrees, pointing out that if sustainability initiatives are only being looked after by a junior-level team and no one at board level or management level is interested, they are unlikely to get the monitoring they need. “You need to have the right structures in place, the right kind of data and targets,” he says. He adds that companies should focus on the issues that are most material to them and not try to do everything, particularly in the case of small- and

medium-sized enterprises. “They need to make it into something that is manageable and understandable, focusing on what is most relevant to their company,” he says.

Tisman gives the example that for a food manufacturer, factors such as product quality and safety, and water stewardship are likely to be important, while for a car manufacturer, fuel efficiency and greenhouse gas emissions are more likely to be priority issues. “Companies need to talk to their stakeholders and conduct an analysis to reach a conclusion on what is really relevant for their own reporting, rather than trying to apply a whole framework of ESG-related aspects in a scattershot way,” he says.

Monitoring progress

Once companies have identified the issues that are material to them and set their ESG vision, they have to plan how they will achieve it. Rozario points out that they will not be able to achieve everything in one go. They should instead identify the different steps they will need to take, setting attainable goals along the way and backing them with resources.

He thinks putting in place key



In response to the growing focus on environmental, social and governance (ESG) issues among organizations, the Institute is renaming the awards this year to the “Best Corporate Governance and ESG Awards.”

ROUNDTABLE

Best Corporate Governance and ESG Awards



performance indicators (KPIs) to measure progress and encourage employee buy-in is an important part of achieving long-term goals. “Having attainable KPIs helps everyone work towards one direction,” he says.

Ng stresses that KPIs must not only be relevant, but that companies should also set ones linked to short and medium-term goals, as well as long-term ones, so that they can monitor whether they are on target or need to accelerate their progress. Cheng adds that KPIs should also be aligned to the company’s industry, for example whether environmental goals are linked to CO2 emissions, energy consumption or water use. “Corporates can also make KPIs relevant to them, such as looking at the revenue generated from low carbon products, or cost savings due to energy efficiency, which may be more motivating, especially on the management side,” he says. Cheng adds that management’s remuneration could also be linked to achieving these KPIs.

Tang points out that as well as setting KPIs and monitoring progress towards long-term goals, companies should also report on their progress to show transparency and consistency and win trust from investors and stakeholders. Ng agrees: “We see reports where

companies say they have put a lot of policies in place, but without KPIs, we don’t know if they have actually implemented them or what progress they have made.”

The rise of non-financial reporting

The increased focus of investors and stakeholders on ESG factors is driving demand for companies to publish non-financial information, according to Tang. “Non-financial reporting is key for them to assess whether the company’s performance is on track and whether it can be sustained and is resilient to upcoming risks. This information is really key to their decision-making,” she says. Ng adds, “Financial and non-financial reporting should not be looked at in silos. Investors need information on how a company operates from both angles.”

Cheng agrees that there is increasing interdependence between financial and non-financial information. “Investors want to look at how ESG factors are affecting the financial statements, such as what provisions companies have made to make their properties resilient to climate change, how they are spending on research and development (R&D) for new products, how ESG factors may impact a company’s business model

and how they could impact its value.”

Tang sums up that without both sound financial and non-financial reporting, investors are unlikely to have confidence that companies have the right strategies, policies and business models in place for the long-term. “If it is done well, this combination is indicative of a company that is likely to sustain its value over the longer term,” she says.

Currently, there are a number of frameworks to help companies report on ESG matters, such as the Global Reporting Initiative, the United Nations Sustainable Development Goals, and, in the United States, the Sustainability Accounting Standards Board, as well as organizations focusing more specifically on climate-related reporting. All of this can be confusing. However, there are also moves to make financial and non-financial reporting more integrated, e.g. through the framework developed by the International Integrated Reporting Council and, more recently, announcements that a number of these bodies intend to work more closely together.

Tisman says: “The Trustees of the IFRS Foundation are now talking about changing their remit to set up an International Sustainability Standards Board

“If ESG data is assured by an independent professional, people find it more acceptable and reliable.”



“We see reports where companies say they have put a lot of policies in place, but without KPIs, we don’t know if they have actually implemented them or what progress they have made.”

modelled on the International Accounting Standards Board under the foundation. If it goes ahead, this could help to harmonize ESG reporting standards.”

The role of accountants

Accountants have a key role to play in many areas of helping companies improve their sustainability, including assisting with the collection, analysis and reporting of data. “Ensuring the completeness and accuracy of data is something that accountants always do,” Rozario says. Ng adds that accountants are also good at communicating business value and insight to corporates, which can help them see the value of having sound ESG policies in place.

Tang says: “In addition to being adept at applying standards, accountants generally have a good knowledge of areas like risk management and internal control, and internal audit – skill sets that will be increasingly important in ensuring the integrity of ESG data gathering and analysis reporting. I think accountants are well set to play a leading role in this area in the future.” But, Tisman adds, they also need to collaborate with other professionals who have a background in specific areas where data collection is important, such

as those in emissions and other relevant aspects of ESG.

Cheng thinks accountants can also play a role in the materiality assessment of ESG factors and risks for companies. “They can also make use of their financial knowledge to assess the return on investment for R&D projects for the development of new products and services,” he says.

Accountants also have an important role to play in assurance. Tang says: “If ESG data is assured by an independent professional, people find it more acceptable and reliable.” Ng agrees, adding that accountants are used to exercising professional judgement and professional scepticism.

Tisman points out that as there is currently no single standard for recording and reporting ESG data, concerns about the quality of this data may be deterring accountants from doing more assurance. To assist practitioners, the Institute recently issued Auditing and Assurance Technical Bulletin 5 *Environmental, Social and Governance (ESG) Assurance Reporting*, which details how to apply Hong Kong Standard on Assurance Engagements (HKSAE) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial*

Information. “The Institute’s guidance is one of the first of its type,” he says.

Ng points out that ESG and sustainability frameworks are less developed than the accounting frameworks, which can be a challenge to auditors. As a result, the Institute is planning on targeting areas that are challenging to the profession and offering guidance to enhance the consistent application of HKSAE 3000. In the long run, greater comparability in the approach to assuring ESG reporting will also be important for investors and other stakeholders.

While implementing ESG policies and reporting on non-financial information may be challenging, Ng thinks it is something companies cannot afford to ignore, as environmental and sustainability risks and opportunities will affect companies’ operations and long-term value creation. Tisman agrees: “A lot of things have happened over the last decade or more that has caused civil society and the public to lose trust in business but, by giving serious attention to ESG, companies can regain some of that trust and show that they are collaborators in helping to ensure a long-term sustainable future for the planet.”



SECOND OPINIONS: HOW WILL CBD2 IN KOWLOON EAST TRANSFORM HONG KONG FOR BUSINESSES?



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“Energizing Kowloon East” was announced by the Chief Executive of Hong Kong in the 2011-12 Policy Address, and will see the transformation of an area that was predominately industrial into a business area as Hong Kong’s second central business district (CBD2). The plan will transform Hong Kong in three main ways.

Geographical: Kowloon East has a favourable geographic location and is well connected to other parts of Hong Kong through the MTR and road networks. The recently opened MTR’s Tuen Ma Line, running from Ma On Shan to Tuen Mun, further connects Kowloon East and makes it convenient to travel to different areas in Hong Kong.

As well as connections, there are a lot of land reclamation areas, which is ideal for new town planning. In the future, a satellite new town will be built in the area with new residential and office buildings and government offices, increasing the local population and helping to alleviate Hong Kong’s housing shortage.

Economic: Hong Kong, a financial and trade centre, is one of the most developed economies in the world with a high per capita income. With its special relationship with Mainland China, Hong Kong has attracted many multinational corporations to base their regional headquarters in the hope of entering the Mainland market.

The new business areas in Kowloon East, with new Grade A office space designed with energy efficiency in mind, offer a favourable business environment for corporations to set up their Asia-Pacific headquarters.

Social: Hong Kong is a melting pot of East and West, and the government has proactively promoted the development of a diverse and social culture through the peaceful coexistence of its citizens.

The new cultural and sports venues in Kowloon East will allow the government to organize social, sport and cultural events, strengthening Hong Kong’s status as Asia’s world city. Events will help serve as a platform for all of Hong Kong’s residents, be they local or expats, to get along with one another and develop a harmonious atmosphere.

“The new cultural and sports venues in Kowloon East will allow the government to organize social, sport and cultural events, strengthening Hong Kong’s status as Asia’s world city.”



ANTHONY LIN FCPA
FINANCIAL CONTROLLER,
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MARTIN WONG
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GREATER CHINA, HONG KONG,
KNIGHT FRANK

Gammon Construction Limited is one of the companies that holds a strong belief in the “Energizing Kowloon East” initiative and moved our headquarters from Quarry Bay to Kowloon Bay in 2019. Apart from a new building, quality floor space, and the green environment in the nearby area, this new office is much closer to some of our major construction sites and clients, as well as our Tseung Kwan O Technology Park Office. This makes travelling and meeting our teams and clients much more efficient.

The development of CBD2 will not only revitalize the area, but also help to transform Hong Kong for business in a couple of ways:

Strengthen Hong Kong’s competitiveness as a financial hub:

CBD2 will have roughly double the commercial floor space of Central. Grade A office space in Kowloon East will be 17.2 million square feet by 2021 and reach 29 million square feet upon the completion of the Kai Tak Development. The area is expected to become the head office location for multinational corporations and financial institutions, instead of only the back office location.

Propel the smart city of tomorrow: CBD2 will be a crucial pilot for the implementation of various smart city elements, which will be rolled out to the rest of Hong Kong when appropriate. Several proof-of-concept trials have been implemented in Kowloon East to demonstrate the benefits of smart city developments and to provide a better understanding of the feasibility of wider application. These trials include a smart crowd management system, a personal and preference-based way-finding for pedestrians, an energy efficiency data system, solar-powered traffic sensors, a kerbside loading/unloading bay monitoring system, a smart recycling bin system, multipurpose lamp posts, real-time road works information, and a smart parking system.

Transformation is never easy, particularly in an industrial area, but we’re gradually seeing the vision of “Energizing Kowloon East” being realized. Kowloon East will turn into a more vibrant and dynamic environment, which will help Hong Kong attract talent and investments, boost investor confidence, and rebuild our unity.

“The area is expected to become the head office location for multinational corporations and financial institutions, instead of only the back office location.”

Kowloon Bay, Ngau Tau Kok and Kwun Tong were once the industrial heartland of Hong Kong. When the nearby Kai Tak Airport closed in 1998, the older industrial areas were ripe for urban renewal. Since then, a greater vision for Kowloon East has emerged.

In the past couple of years, the transformation of Kowloon East into a CBD2 of Hong Kong has been taking shape. Alongside the plans for the adjoining Kai Tak Development, CBD2 spans over 320 hectares, with new offices at the site of the former airport, the Kwun Tong Business Area and the Kowloon Bay Business Area.

The area has witnessed the rapid growth of an important high-grade office building cluster of over 19.8 million square feet of commercial floor space, accounting for 23.2 percent of the total Grade A office stock in Hong Kong.

Kowloon district has long been considered a cost-saving alternative for office space compared to the traditional central business district. The average office rents in Kowloon East has been about a quarter of that in Central. Kowloon East will continue to be attractive as it develops, with over 7 million square feet of future supply to come, offering plenty of options for office tenants. Including the Kai Tak Development area, the CBD2 is envisioned as Hong Kong’s largest commercial district overtaking the existing CBD on Hong Kong Island.

Supported by the development and accessibility improvements, CBD2 has the potential to transform into a premier business district in Hong Kong. Furthermore, Kowloon East has been promoted as a smart community with lots of low carbon buildings. Forty-nine projects in Kowloon East and San Po Kong Business Area have acquired BEAM Plus New Buildings Gold or above as of June 2021. With environmental, social and governance initiatives being a hot topic for both landlords and tenants, we expect CBD2 to have an increasingly dominant position within Hong Kong’s office marketplace.

“Kowloon East will continue to be attractive as it develops, with over 7 million square feet of future supply to come, offering plenty of options for office tenants.”



DRIVER OF CHANGE

The definition of an accountant has drastically changed, says Barry Melancon, Chief Executive Officer of the American Institute of CPAs (AICPA), a Global Accounting Alliance member body, and the Association of International Certified Professional Accountants, the combined body of the AICPA and the Chartered Institute of Management Accountants. He talks to **Nicky Burrridge** about the importance of reskilling and how he is driving the transformation of the profession in and outside of America

What would an audit look like if it was created for the first time today? This is one of the questions that occupies Barry Melancon, Chief Executive Officer of the American Institute of CPAs

(AICPA) and the Association of International Certified Professional Accountants, the combined body of the AICPA and the Chartered Institute of Management Accountants (CIMA).

He explains that the AICPA has set up a project called Dynamic Audit Solution, which focuses on reinventing audit based on new technologies, such as big data, artificial intelligence (AI) and data analytics. “We are looking at how we would create an audit today if it didn’t already exist. We are trying to reinvent our services based on today’s technological capabilities. We are trying to push the envelope,” he says.

The project is still at an early stage, but Melancon says it is clear that while future audits will retain a significant human component, the way information is understood, analysed and verified will be transformed by technological capabilities.

He points out that AI, rather than testing, will be used to identify areas that need further investigation in the future, and it is possible audits will be conducted predominantly remotely. As a result, the skills that audit professionals need will also evolve, with routine tasks automated, and CPAs instead having to become competent in areas such as data science, and data integration and analytics.

Dynamic Audit Solution is just one of a number of research and development activities undertaken by the AICPA to help safeguard the sustainability of the accounting profession. Melancon warns that accountants may not

“I have a passion for the profession and my role is really to be that voice and change agent for the profession.”

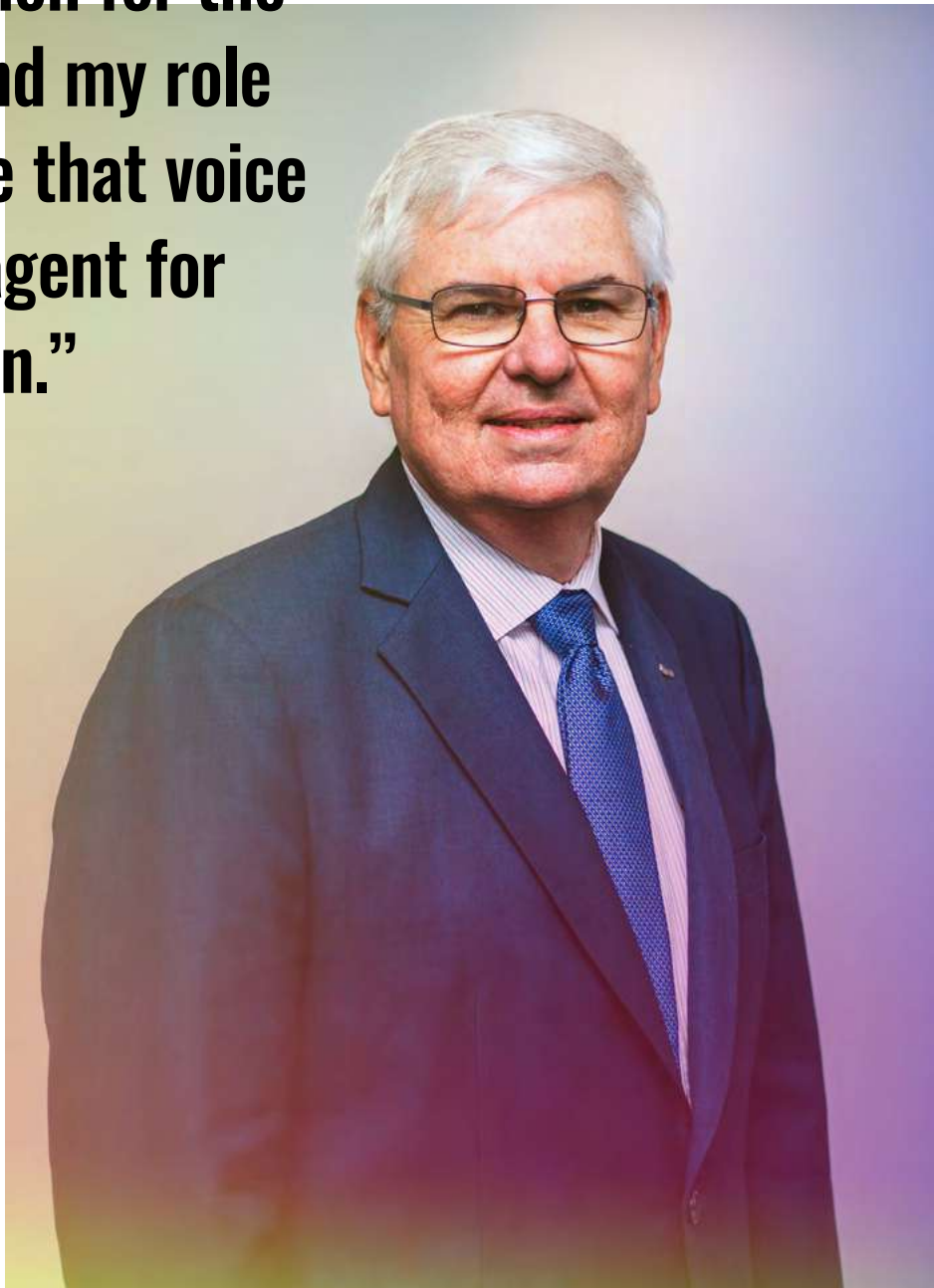
recognize their profession in five to 10 years’ time, with the pace of change accelerated by the COVID-19 pandemic.

“The profession today is nothing like it was when I entered it in 1980. Technology is a major driver of change today, but there have been other drivers, such as the changing expectations of clients, regulators and the public, and the recognition that different types of services are needed,” he says.

Transforming the profession

Melancon grew up in Louisiana in the United States, where he majored in accounting at university. He started work at a small CPA firm with fewer than 20 people, servicing small businesses, and became a partner at the age of 25. After three years, he left to become executive director of the Society of Louisiana CPAs. He was there for eight years before being appointed as CEO of the AICPA in 1995, a role he has held ever since, making him the longest serving CEO in the organization’s 129-year history.

AICPA is the largest member association representing CPAs in the world, with more than 431,000 members. Melancon sees his role as CEO as driving the transformation and success of the accounting profession for the long term.



“I have a passion for the profession and my role – historically in the U.S. and now on a global basis to reflect the global mobility of our members – is really to be that voice and change agent for the profession,” he says.

Within that broader goal, his main focus is looking at how change

impacts AICPA’s members and how the organization can help them deal with this change through providing them with the tools, services and resources they need. Melancon explains: “How we define a CPA and the skill set a CPA needs has changed dramatically. Technical

areas of accounting only make up 20 percent to 25 percent of the competency framework today and a whole host of other skills are also necessary. The speed of change has significantly accelerated,” he says. “If you are mid-career, there are lots of estimates that nearly 50 percent of the knowledge you have now will not be very valuable in the marketplace in the future. So, you are going to have to reskill yourself dramatically and that is a huge challenge.”

He points out that reskilling is easier for the younger generation because they are digital natives, and they are motivated by learning different things in a way that older people may not be. To help members reskill and keep pace with technological changes, the Association provides a range of resources. “We have technology packs that enable people to get baseline information – what I call ‘walking around knowledge’ of certain leading technologies. We also do Internet-based learning modules and certificates where people can do a deeper dive into areas such as AI or blockchain data analytics,” Melancon says.

He points out that blockchain, for example, has significant ramifications for accounting, tax, fraud detection systems, and the way accountants deal with the controls around data and financial information. It is therefore extremely important accountants understand it. “We try to look at not only the technology but also the implications. We have to pick and choose what we think has the greatest impact. There are always new things, and you try to balance them.”

Helping accountants keep pace with this change is one of the biggest challenges Melancon faces. He says that while it is a great privilege to represent professional accountants – who he describes as

being an incredible group of people who are highly competent and ethical, and who want to do things for the greater good – not everyone is open to change. “When you are a change agent, you don’t always have the support of everybody around you. You have to rise to the challenge to explain in simple terms why change is critical for the profession to be successful in the long run. You have to have a thick skin and have the confidence and temerity to be really committed to make things happen.” He admits that he also has to be willing to change himself, as he will not get everything right all the time.

A regulator and an advocate

Alongside supporting members, Melancon also has all the responsibilities that come with being the CEO of a global organization with employees all over the world, such as internal management oversight and board relations. Before COVID-19, he spent a lot of time travelling to give speeches, have meetings with government leaders and regulators, and interact with Association members and other organizations globally. He typically spent more than 200 days a year on the road, and he points out that even before the pandemic, much of his internal management was already done remotely and through virtual meetings.

AICPA plays a key role as both a regulator and an advocate for the profession, as well as being responsible for the organization’s Uniform CPA Examination. It is responsible for setting regulations for non-listed U.S. enterprises, which make up the majority of the U.S. economic system. “In that component in the U.S., we still set the regulations, the auditing standards, and the ethical standards. In the listed company

world, we have a very strong advocacy programme, and we work with regulators and government leaders,” Melancon says.

In 2001, AICPA launched *CPA.com*, which it uses to provide resources to CPA firms, particularly smaller ones, of which there are around 44,000 in the U.S. Members can access education, tools and resources, network with other members and learn about new technology solutions through the platform. “We also bring together annually the leaders of companies that are delivering technology to the world to dialogue about how we can work together to benefit the profession as a whole,” he says. “We partner where we can with companies that are providing leading edge technology to make those types of technologies more readily available, particularly to small and medium enterprises and practices.”

Overcoming challenges

Melancon says the COVID-19 pandemic has created a range of new challenges for accountants working in both the U.S. and globally. “There is going to be intense regulation in a post-COVID world after the governments of the world have spent immensely, and we have to adapt to new work models, such as hybrid models and virtual models,” he says. “There is also the notion of how you help businesses get to the next level to survive, and how you do it in a world that is changing so fast because of technology.”

Going forward, Melancon adds that accountants working in business will have an increasingly important role to play in helping companies navigate the complexity of the world in which they operate. “The complexity today is immense. Everybody is global: the speed is phenomenally fast, the technology



The Association of International Certified Professional Accountants is the combined body of the American Institute of CPAs and the Chartered Institute of Management Accountants. It represents 650,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues.

changes and the interfaces of how businesses operate is much more complex. The need for the ability to sort out that complexity is way greater than it was previously.”

Another challenge is ensuring the profession remains attractive to university leavers in the post-pandemic world. “Every young person has a view of the world today and the challenges that are being faced. So, we have to be able to reinforce to young people what our purpose is and why we are so important. This will motivate them to see that becoming a professional accountant is not just about accounting, but about delivering on that purpose that elevates businesses, allows capital markets to work, allows balanced regulatory systems and taxing regimes to work, and that helps society as a whole. That is an important

challenge in the U.S. and around the world.”

Melancon is also focused on mental health, pointing out that the stress caused by the pandemic, with people working from home and juggling that with family responsibilities, has created issues in this area. “I speak about mental health all the time. It was not easy for me to do and I think it is not easy for people in our profession, who are very analytical and very ‘type A,’ high performing people, to come back to those type of things where people really struggle.”

He is a strong advocate of maintaining a good work-life balance and the importance of taking time out. As a result, despite his own busy schedule, Melancon ensures he has time to relax and unwind, which he does by boating, playing golf, and watching sport.

An international voice

During his time at the helm, Melancon has helped to transform the AICPA from having a national presence in the U.S. to a global one, in part through the creation of the Association, created with CIMA in 2017. The rationale behind creating the joint entity, he explains, was to be able to advocate for and lead the profession on a global basis, due to both the mobility of the profession and the multinational nature of the entities that accountants work for.

At the same time, he explains that with millions of accountants working in businesses, the role of the professional accountant in the corporate space needed to be truly professional on a global basis, and not limited by national regulatory environments. “Our notion was to elevate, ultimately globally, the quality and professionalism of the professional accountant in business, so that when a business hires someone, they know they are getting a certain level of quality and capability,” he says.

Melancon was also chairman of the board of the International Integrated Reporting Council, which merged with the Sustainability Accounting Standards Board (SASB) this month to become the Value Reporting Foundation. The merged organization plans to support businesses and investor decision-making with three main resources: integrated thinking principles, the integrated reporting framework, and SASB standards. Investors expect that the consolidation will result in more consistent sustainability standards.

As chairman of strategy of the new entity, Melancon is a strong advocate of rationalizing the standards used for environmental, social and governance (ESG) reporting, and ensuring professional accountants

“Every young person has a view of the world today and the challenges that are being faced. So, we have to be able to reinforce to young people what our purpose is and why we are so important.”



“I think the whole ESG space, which I would say involves integrated thinking and reporting, is ours to lose as a profession, and we have to seize it.”

play a key role in the reporting of non-financial information. “I think the whole ESG space, which I would say involves integrated thinking and reporting, is ours to lose as a profession, and we have to seize it,” he says.

He explains that as the world starts to demand different information from businesses, of which financial information is only a part, the management accounting function should be the centre point. “The controls, consistency and honesty around it ought to be centralized in that space where the professional accountant sits.”

He adds that accountants will also need to provide assurance on

the information, as third parties will want to know it is reliable and consistent. “As chairman of strategy, I hope to help make these things happen,” he says.

Melancon also has a role with the International Federation of Accountants (IFAC), of which AICPA is the largest member body, and he is part of the AICPA’s delegation that provides input on regulatory changes and supports IFAC’s activities in helping to develop the profession.

In addition, he is a founding board member and current chairman of the Global Accounting Alliance (GAA), an international coalition of accounting

organizations, which includes the Hong Kong Institute of CPAs. The alliance meets on a regular basis to share information and discuss current issues and ways the individual institutes can work together. “We also interface with regulators and thought leaders around the world to ensure the professional voice is heard,” Melancon says. He adds that the GAA plays an important role in ensuring there is collaboration across the 10 largest accounting bodies. “This collaboration is critical in helping to keep the profession moving forward in dealing with key issues happening.”



The Clinical Psychologist at Psynamo Group, a Hong Kong-based professional mental health practice, on steps you can take now to ensure better mental well-being and overall happiness



How to maintain good mental health

Often, mental well-being is viewed as a state we need to pay attention to in case something goes “wrong.” It is critical that we make a concerted effort to view mental health as a range of all emotions, with variability that is normal, understood and lived, and mental well-being as this “steady state” plus keeping other important aspects of our life in some semblance of balance.

Meet individual needs

There is no one-size-fits-all approach when it comes to mental well-being. The research into mental health and well-being over the last 20 years has brought to the fore various concepts including “happiness,” “mindfulness,” “flow,” “a growth mindset,” “positivity,” “resilience,” “grit,” “psychological safety,” and so much more. All are accompanied by their own programmes developed to impart this wisdom into human resource departments, school curricula, pop-up parenting programmes, therapy rooms, and trickling right down to the mainstream news feeds and headlines.

Achieving good mental well-being involves having the courage to take what works for you, modifying what needs changing, leaving the rest, and being brave enough to own it. We can’t rely on others to tell us what feels right, but instead, we must feel empowered to say, “this is what works for me and what works for you.”

By understanding that there is something for everyone, we can authentically maintain our own mental well-being, discover our natural “steady state,” learn how to live with highs and lows, and how to really savour the more mundane moments in life.

Accept a natural range of emotions

It is not a reasonable or realistic goal to expect to live in a perpetual state of happiness. In pursuing a healthy balance, we have to accept that all emotions, positive or negative, are a part of life and that we need to experience and feel them in order to understand that we will eventually move past them. Everything has its place and time, and learning to accept and enjoy this range in our lives is what will be the biggest contributor to true mental well-being.

When we become fully capable of accepting this full range, with the knowledge that we will usually return to feeling okay again, it is easier to recognize these boundaries for ourselves,

to accept when we may have crossed them, and if so, reach out for appropriate support. Mental well-being is essentially a state where we do not ignore everything that isn’t perfectly positive, but accept it for what it is.

Look after the “big eight”

Having any hope of maintaining balance in both mood and life generally requires looking after what I call the brain’s “big eight” (water, food, sleep, exercise, connection, learning, play, and protection from injury). This means balancing water and food intake according to our own metabolism, and sleep according to our own circadian rhythm, should be our primary objectives. Even being a bit dehydrated, for example, can make us sleepy, cranky, and cognitively less efficient. We are all aware of the role that exercise and physical activity play in maintaining metabolism, weight management, and sleep-wake cycles, but this is also immensely important for keeping our mood in check.

Implementing some element of learning, connection with others, and play in our lives every day is also important.

Learning can be anything from tasting a new food, to reflecting on what is happening in the world, to learning a new skill. Our brains adapt throughout life and keeping neural connections active in this way can improve our outlook as we challenge ourselves to see things in a new light.

Connection with others is another basic human drive and we wither a little when we cannot get this in any form. Deep connections are wonderful, but even day-to-day hellos to people in your neighbourhood who you don’t know can be just as meaningful as it reminds us that we are all connected. Kristin Neff, Associate Professor of Educational Psychology at the University of Texas at Austin, whose triumphvirate theory of “self-compassion,” echoes this through the concept of taking time to realize we are all human and to hold off on the judgemental voice that may be in our heads, either for ourselves or for others.

Play is not just for children. We need at least half an hour every day, even as adults, to just do something for fun, whether it’s gaming, drawing, sudoku, or throwing a ball. Try to do something just for fun that doesn’t count as anything else in the big eight and gives you pleasure, and give yourself the dedicated space and permission to do so.

By accepting the natural range of emotions in life, recognizing individual subjectivity, and taking care of ourselves by maintaining the various aspects of our lives, we can strike a better balance when it comes to our mental well-being.

“In pursuing a healthy balance, we have to accept that all emotions, positive or negative, are a part of life and that we need to experience and feel them in order to understand that we will eventually move past them.”

The Senior Partner, ONC Lawyers, on the long-awaited pilot programme for the mutual recognition and assistance to insolvency proceedings between Hong Kong and the Mainland



A breakthrough in cross-border restructuring and insolvency

Over the past few years, the Hong Kong Court has seen a significant increase in the number of winding-up petitions with respect to listed holding companies of Mainland business groups. These holding companies are usually incorporated in Hong Kong or offshore jurisdictions like the British Virgin Islands, Bermuda or the Cayman Islands. However, due to the lack of a statutory framework governing Hong Kong and Mainland cross-border restructuring and insolvency, it has been notoriously difficult to administer and implement group-wide liquidations or corporate rescues where a significant portion of the assets are located in the Mainland.

The common law power of assistance

In the absence of a statutory framework, the Hong Kong Court has been pursuing cooperation in cross-border insolvency matters through the flexible application of English common law principles. The common law assistance is, however, not without limit. Liquidators can only do what they would be entitled to do under the laws by which they are appointed, and only when it is necessary for the performance of the officeholder's function.

Furthermore, until a 2019 decision recognizing Japanese insolvency proceedings in *Re Mr Kaoru Takamatsu*, such recognition was limited to insolvency proceedings commenced in common law jurisdictions.

Since that decision, the Hong Kong Court granted recognition and assistance to Mainland liquidators in 2020 and restated the criteria that must be satisfied before recognition and assistance will be granted:

- (a) The foreign insolvency proceedings are collective insolvency proceedings; and
- (b) The foreign insolvency proceedings are opened in the company's country of incorporation.

Provided these criteria are satisfied, the Hong Kong Court may recognize insolvency proceedings opened in a civil law jurisdiction.

However, in spite of these recent developments and the various techniques developed for handling cross-border insolvencies in Hong Kong, the lack of a statutory framework, nevertheless, remains unsatisfactory, particularly in light of the increasing number of corporate group collapses in recent years.

It is therefore exciting to see that on 14 May, the Mainland Supreme People's Court (SPC) and the Hong Kong government signed the "*Record of Meeting of the Supreme People's Court and the Government of the Hong Kong Special Administrative Region on the Mutual Recognition of and Assistance to Bankruptcy (Insolvency) Proceedings between the Courts of the Mainland and of the Hong Kong Special Administrative Region.*"

Since then, the SPC has formulated the "*The Supreme People's Court's Opinion on Taking Forward a Pilot Measure in relation to the Recognition of and Assistance to Insolvency Proceedings in the Hong Kong Special Administrative Region.*" The pilot programme will be implemented in Hong Kong and a number of pilot areas in the Mainland such as Shanghai, Xiamen and Shenzhen, which are among the most popular choices for investments from Hong Kong. It is expected that with sustained improvements, the programme will be gradually extended beyond the pilot areas over time.

The pilot programme

The pilot programme allows liquidators from Hong Kong and the Mainland to apply to the relevant Hong Kong or Mainland court for recognition of insolvency proceedings and assistance for the discharge of their duties as a liquidator or provisional liquidator. It is noteworthy that the insolvency proceedings include not only winding-up proceedings but also corporate debt restructuring proceedings in Hong Kong and reorganization/compromise proceedings brought under the Enterprise Bankruptcy Law of the People's Republic of China.

The procedures for and manner in which applications for recognition and assistance are to be made will be governed by the relevant provisions of the requested place. The Hong Kong government has issued a practical guide for the procedures in relation to the application for recognition and assistance.

Conclusion

Given the ever strengthening economic and financial ties between Hong Kong and the Mainland, coordination in cross-border liquidation and corporate rescues is crucial, and has been long overdue. The statutory framework, which allows and facilitates the mutual recognition of and assistance to liquidations and corporate rescues between Hong Kong and the Mainland, is an important step to improve the protection of investors and creditors, whether in Hong Kong or the Mainland, in relation to their investments in corporate groups with cross-border business. In particular, Hong Kong has become the only jurisdiction outside the Mainland to have established a cooperation mechanism for mutual recognition of and assistance to insolvency proceedings with the Mainland. An orderly and efficient cross-boundary insolvency and debt restructuring cooperation mechanism between the Mainland and Hong Kong also gives additional assurance to creditors and investors, facilitates lending and investment, thus further enhancing the investment and business environment in the two places. It is earnestly expected that the pilot programme could be effectively implemented and eventually extended to more locations in the Mainland.



DIGITAL TRANSFORMATION: THE JOURNEY SO FAR

Cloud-based technology can help firms and their clients share data online in real time. Practitioners from small and medium practices tell **Liana Cafolla** about their paths to digitalization, the challenges and benefits, and the boost from COVID-19

Illustrations by Ester Zirilli

For accounting firm NOVA CPA Limited, a small and medium practice (SMP), the push to go digital came from client demand and the firm's conviction in about equal parts, says Co-founder Matthew Li FCPA (practising). His clients were looking for solutions to make digital payments, for OCR, or optical character recognition, which allows for scanning of invoices and other documents, and for digital administration tools. "We have had a lot of enquiries in these areas," he says.

NOVA use Xero, Zoom and Google G-suite to do their day-to-day work. In all, the company has adopted cloud technology to handle 80 to 90 percent of the firm's operation, but Li considers the firm as still on its digital journey. "Digital transformation is not a task, nor a project. We are still at the beginning in a never-ending journey. It's like staying healthy, you need workouts and healthy food. We're doing workouts every day."

His biggest challenge has been to convince employees of the potential benefits of going digital, he says. "The technology is ready but there is fear of change. Fear of being replaced by technology."

To win them over, the firm has focused on educating employees about the benefits of technology and how digitization aligns with the firm's vision and goals. "We share our view of the future, of the industry, and the attitudes needed to cope with change and maintain momentum," he says. He has also shifted attention to the younger generation. "They are very smart. They adopt technology quickly."

For Li's firm, the main benefits of going digital have been improvements in accuracy, efficiency and decision-making. Sharing data digitally has eliminated a lot of human error, and the firm can work more efficiently with clients, who can now access the firm's schedule for booking appointments with ease. Clients can also access all information and settle payments digitally, which saves them a significant amount of time and cost. "NOVA is not a traditional CPA firm. We focus on bringing value to clients, helping them to be more efficient, do better business and help Hong Kong people. Digitization also brings value to the firm in terms of more time to let us think and focus on strategic growth. It also produces positive social outcomes by reducing the need for staff to work overtime."

"Digital transformation is not a task, nor a project. We are still at the beginning in a never-ending journey."



On the international level, Hong Kong lags behind others. “Places such as the United Kingdom and Singapore have already implemented different policies that utilize accounting software, such as digital audit submissions and digital signatures, which are not yet available here. That’s the environment.”

The government’s launch of digital IDs for individuals and corporate IDs is a promising sign of future possibilities in a range of areas. However, some processes need to change to enable greater uptake. Li gives an example of during the pandemic, with many government staff working from home, he tried to submit digital signatures for the

audit report, but they were rejected. However, the emergence of COVID-19 and extended work-from-home periods changed attitudes and more clients are now eager to switch to technology.

“Building the eco-system is our next step,” he says. “That’s why, as a CPA firm, we have a lot of partners in the region. We’re looking at fintech, regtech, compliance issues, know-your-customer duties, money laundering targets. But if the environment doesn’t change, then the endpoint doesn’t change.”

Tracking global workflows

At CW CPA, the journey to digitalization started in the last quarter of 2020. The pandemic was

still raging around the world, the long-term negative implications for international travel were becoming apparent, and clients were clamouring for digital solutions. “Most of my affiliates and customers are going digital, so if I don’t go digital, I will lose a lot of business,” says Thomas Wong FCPA (practising), Co-owner and Partner of the firm. The fast growth of China’s tech companies, from small businesses to e-commerce giants, is the inspiration for the firm’s switch to digital, he adds.

With a staff of almost 100 and more than a thousand clients spread across seven offices in Hong Kong, Mainland China, London, Barcelona and Bogotá, finding

ways to share data and collaborate effectively are essential to his business. The firm's presence in Latin America is its niche offering for Mainland China and Hong Kong, and it is deepening its connections with the launch of what Wong calls a "virtual internship" by launching a memorandum of understanding with a technology university in Mexico to train eight students online in digital e-commerce in the Mainland.

With some teams located abroad and other staff members stuck in their home countries, the firm uses Monday, a cloud-based platform that helps companies manage their workflow in customizable ways and track project progress. "They have to input their work on Monday," he says. As well as enabling international work management, Wong says the platform and other software have helped improve the firm's efficiency in dealing with everything from supply chain and bookkeeping to audit and tax returns. The firm also uses Xero and recently added Alipay to its range of payment options.

Staff support for the changes has varied. For employees located overseas, the take-up was quick and enthusiastic. In Hong Kong and the Mainland, getting buy-in was more difficult. "I promised my staff no sacking, just the optimization of resources," he says.

Employees in Hong Kong and the Mainland were able to experience first-hand the benefits of cloud-

based work during the pandemic. "In February 2020, when COVID came, I told them to stay put and work from home. So that was a trigger to go for digitalization, because of health," says Wong.

His advice for other firms is to recognize that the new normal of digitization is here to stay and to adapt to the changes. "We have to accept new trends, new ways, new methods. Be forward-thinking, courageous, do it again if you fail. And get the young generation on board – they are good at digital."

From tech user to builder

A desire for greater efficiency to counter the difficulties of finding employees and ever-increasing staff costs was the trigger for Linkers CPA to go digital in 2018, along with clients' demands for cloud solutions to handle their financial reporting and management reporting processes. One of the first digital changes Linkers made was to move invoicing from Excel spreadsheets to Xero, making real-time online invoicing possible. The firm had heard about the cloud-based accounting platform and decided to move out of their comfort zone and switch to digitization. They contacted Xero, put together a team of three to four people to customize the service to meet their needs and then worked to convince colleagues, partners and clients that cloud-based solutions were the way forward. "For SMPs, we are one of the market leaders already for digital transformation," says the firm's Founding Partner, Rex Leung FCPA (practising).

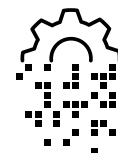
It took time and effort to promote the system to small and medium enterprises, but the effort and investment was worth it. "In 2020, especially with COVID, it paid off,"

"We educate clients to scan all the receipts to the cloud platform to facilitate better file management. It's convenient. But then we still have to keep all original receipts for seven years."

says Leung. The firm's proficiency in cloud technology and its ability to offer a wider range of cloud-based services helped it win big clients including listed companies and large food and beverage companies.

The switch to digital is bigger than simply adopting a cloud-based platform, he explains. "The thing is, it's not just about finance. It's a cloud-based platform. There can be some API integration [application programming interface, which allows apps to communicate with each other]. It's like a mini enterprise resource planning system." The integration of different functions and services creates a network of solutions for clients that helps build loyalty and close relationships. "It allows us to create an ecosystem for the apps localized in the market, build a community for our clients and enable us to share knowledge with them," he says.

The firm's adeptness with technology has made it a more attractive employer to graduates who are interested in tech-related business. Other benefits to the firm include saving between 40 and 100 work hours per week on client finance teams. Bank reconciliations can now be automated, eliminating the need for data entry and reducing



In September 2020, Gartner, global research and advisory company, reported that 69 percent of boards of directors in the United States, Europe, the Middle East and Africa and Asia Pacific had accelerated their digital initiatives following COVID-19 disruption, and were looking to increase their spending on technology.

"Most of my affiliates and customers are going digital, so if I don't go digital, I will lose a lot of business."

human errors. The audit team can do more of their work without paper and communication with clients is easier and faster.

In some areas, tech solutions are hampered by Hong Kong's long-standing preference for paper records. "We educate clients to scan all the receipts to the cloud platform to facilitate better file management. It's convenient. But then we still have to keep all original receipts for seven years," says Leung. Similarly, tax returns still have to be filed on a paper form, unlike in the Australia and U.K. where they can be filed digitally. He thinks the work-from-home experience during COVID, when some employees were not able to do much work from home, has highlighted the advantages of digitization.

Linkers has already set up its own tech team to further develop their own product, called Cloude, which offers a series of cloud-based accounting services, such as receipt scanning, bank account checking in real time and more user-friendly reporting. "Our focus is still on our CPA practice. We will keep developing the cloud products and services ourselves in collaboration with other players in the cloud community in Hong Kong to provide more value-added cloud solutions to our clients," says Leung.

Early adapter

One of the earliest adapters of digital technology in Hong Kong was FastLane CPA. Prior to setting up their firm in 2013, the founders had worked at an international bank where they had experienced first-hand the benefits of digitization and automated processes, and they quickly adopted tech solutions for their firm. "We starting using Xero and Zoom about six or seven years ago when those technologies

"I think lots of traditional accountants are very busy and just put their heads down and work and work. But I think it's worth it to go out and meet different people and explore new technology which can save their time."

were still very new in Hong Kong," says Wilson Ng CPA (practising), Co-founder of the firm.

Adopting Xero was the biggest step in the firm's digital transformation. "By using Xero, we are able to provide our clients with the latest financial information and liaise with our international clients more efficiently," he says. The firm's biggest challenge was convincing clients of the benefits of working with cloud technology and teaching them how to use it. "We educated our clients and guided them through the process to make them more comfortable."

Ng expects the firm to continuously be on the lookout for new and better tools to work for accounting and also in other areas. "There are also other tools, like customer relationship management systems, which can help to manage the clients and increase the sales," he says. "I think lots of traditional accountants are very busy and just put their heads down and work and work. But I think it's worth it to go out and meet different people and explore new technology which can save their time."

Digitization has no end point that

he can see. "I don't think there's an end to this digital transformation. We need to keep exploring new technology to help us get better. Once we stop, our competitors will overtake us."

Ahead of the curve

After launching his firm in 2014, Larry Cheng CPA (practising) quickly started switching to digital. He was inspired by the transition from manual to digital he witnessed while working at a Big Four firm. "I thought, this is not just for big firms, small ones should do this too," says Cheng, Founder of Wise Diligent CPA Co. Ltd., a Council member of the Institute and Chairman of the Institute's Digitalization Committee.

His firm's digital transition took a rapid step-by-step approach. From doing everything manually, he moved some units to digital, starting with the billing system and human resources. Using Xero and other applications, he then moved the entire work flow to digital platforms and advanced to using artificial intelligence to help with audit work. His entire audit workflow had gone digital by early 2020. The transition has saved him about 30 percent of work time for each engagement on average, he estimates.

His team of five staff adapted well to the new digitized environment. Monotonous work has decreased but the workload has remained steady, as the firm took on more clients. Cheng tells his employees their judgement, communication with clients and physical checks all remain essential. "The tools cannot replace you," he says. Cheng developed WIDI, a specialized audit practice management tool, with young employees in mind. "Young people are afraid of audit – the work is dull



and the working hours are so long,” he says, adding that a recent advert for an audit junior received no applications. “The tools can help us make audit more fun than before.” He designed the application with attractive colours and automated features to make using it easier and more engaging.

Cheng’s early adoption of cloud-based technology meant the firm was seamlessly able to adapt

“I thought, this is not just for big firms, small ones should do this too.”

to COVID working conditions.

“Far earlier than COVID, I had already realized how good it is if I can let staff work from home. We had already adopted the tools. When COVID came, we already had work-from-home without any negative impact on the business,” he says. The firm’s work-from-home arrangements are still in place. “I don’t have intentions to change it. When I let them have this freedom, they tend to be more responsible and pay more attention to deadlines.”

From being a user, Cheng has now moved on to working with an external developer to build WIDI, which launched last year

and is still being worked on to add more functions and integration capabilities. The tool includes features that allow audit documents to be accessed easily and for teams to collaborate online, allowing audits to be completed from any location.

He believes the investment in time and money will be worth it to further increase efficiency and prepare the firm for scaling up through acquisitions. “Especially at this moment, some older practitioners are planning to retire, leaving some opportunities for us to do some acquisitions,” he says. “Without efficient tools, it could be catastrophic.”



TAKING CARE OF BUSINESS

Stephen Lo FCPA, Chief Financial Officer at Prenetics, has witnessed the diagnostics and genetics testing company's business acceleration after it ventured into COVID-19 testing. He tells [Jemelyn Yadao](#) how he builds a vision-driven team and helps the company move into the next phase of growth

Photography by Calvin Sit





“**Y**ou can go anywhere in Hong Kong, but not Tsz Wan Shan,” the minivan driver told Stephen Lo FCPA and his chief executive officer. But that’s exactly where they had to be. In July last year, the densely populated area in Wong Tai Sin District was a hot spot of coronavirus outbreaks at the start of Hong Kong’s “third wave.” In response, the government appointed Prenetics, the Hong Kong-based digital health and genetic testing company, to provide free testing to restaurant staff across the city.

“The first day we started, our co-founder and I went to the highest-risk area to distribute the COVID-19 testing kits and collect the kits from the restaurant staff ourselves,” says Lo, Chief Financial Officer at Prenetics, and a Hong Kong Institute of CPAs member. “As leaders and senior executives we have to be on the frontline. After that weekend, we were able to make improvements to the workflow, improve the standard operating procedures that increased our productivity significantly, and share tips on how to do things smoothly.”

ACCOUNTANT PLUS

Stephen Lo FCPA

He adds that there was another reason why it was all worth it. “Speaking to the restaurant staff was a very satisfying moment for me. People were highly appreciative that we went to a high-risk area to deliver the kits.” The company helped test 200,000 workers at 16,000 restaurants, supermarkets and wet markets.

Slowing the spread of the virus and helping the world return to normalcy is one of Prenetics’ missions, says Lo. The company was founded in 2014, focusing on genetic testing, doing research and development on new genomic testing technologies, and launching CircleDNA, its own brand of at-home test kits that detect ancestry composition, disease risk, nutritional needs and personality and behavioural traits. Then, with the alarming rise in COVID-19 cases in February and March last year, the company quickly diversified to offer coronavirus tests and saw its business accelerate.

“The situation had become worse globally and so internally we were thinking about how we could help because we are a genomics company, and it turns out that genetics has a strong role to play in the fight against COVID-19. If you want to diagnose it, you would use a polymerase chain reaction (PCR) test, which is a genetic test. If you want to treat someone, antiviral drugs are extensively used, which was developed using genetic engineering, and for vaccine development you use mRNA vaccines, which leverages genetic technology,” says Lo. “We realized that we had huge testing capacity that was not utilized and so we thought we should start doing PCR tests in Hong Kong and the United Kingdom.”

Before joining Prenetics, Stephen Lo was a vice president in the Asia-Pacific investment banking team of Citigroup, where he completed initial public offering transactions, mergers and acquisitions, and fundraising.



“The challenge now is maintaining that culture of innovation and agility, even if we grow from 400 to, say, 700 people.”

As the pandemic grew more serious, Prenetics’ laboratory in Quarry Bay expanded and converted into a COVID-19 testing facility, relocating the rest of the office into a new place across the street. “Our lab can now do 30,000 tests on a daily basis,” says Lo.

The company now works with governments providing community testing, as well as operates testing sites in various airports, including Hong Kong International Airport and five airports in the U.K. It also helped with the restart of the English Premier League season in June last year by testing players and staff from the 20 football clubs.

Last month, it was announced that airline Virgin Atlantic was partnering with Prenetics to offer customers at-home tests needed for trips to destinations where these tests are accepted. Lo sees it as a sign of growing demand for rapid and convenient COVID tests for foreign travel. “Travelling is one the most important testing cases because people really want to travel again and go on vacation,” he says. “With vaccination, I think the pandemic is moving into the next phase. Earlier it was about finding out positives, doing contact tracing and quarantine. Now with vaccination, people are expecting the resumption of normalcy and the dynamics have changed to testing for negatives to ensure safety when we resume travelling.”

Building trust

Lo joined the company in 2018 when the company was a start-up. “I got to witness the transformation of the company and be part of the transformation,” he says. He hired the company’s second accountant and helped build the finance team. Today, his finance team in Hong Kong is made up of 15 people, while the U.K. team has more than 10.

Lo says as a start-up CFO, he had to be very hands-on with the bookkeeping. Nowadays, his focus is on different things, including maintaining a strong company culture as Prenetics continues to grow. “The challenge now is maintaining that culture of innovation and agility, even if we grow from 400 to, say, 700 people. When the company was small, it was easier to maintain cohesiveness,” he says.

While the top-down approach is important, so is bottom-up, he adds. “When we hire people, we have to understand what they are looking for; whether they believe our vision of disrupting healthcare. Because this is not just a business, it is a business about people’s health. If we make a mistake, it could have a devastating impact on society. We hold ourselves accountable for every decision we make so the people we bring in have to believe in what we do.”

Lo is also focused on ensuring sustainable business growth. “We have to ensure we push ahead with all the strategic initiatives while having

fiscal discipline and a good corporate governance structure to secure the financial future of the company, because research and development requires quite a significant investment and it will take some time in order for us to recoup that investment. This is something I care about deeply.”

As the company grew, so did the importance it placed on its corporate governance systems, says Lo. “Corporate governance was important even when we were a start-up, but the way it was manifested was different because our shareholder base was a smaller group of venture capital investors and it was a lot easier to communicate with them. We have more investors now and earning their trust through adhering to certain principles is very important. We have to ask ourselves: how do we make ourselves trustworthy?”

It’s a key question, particularly as consumer genetic testing companies have come under scrutiny around their use of genetic data. “Nothing is more important and private than someone’s genetic information, so we take data privacy and data security very seriously,” says Lo, adding that the company does not share genetic information with anyone except with the authorization of its customers. “It is very difficult to earn trust and very easy to lose it. If we uphold high standards throughout the entire customer journey, I think this can help us earn trust.”



When the “third wave” of COVID-19 struck, Prenetics helped test 200,000 workers across 16,000 restaurants, supermarkets and wet markets.

Key lessons

After graduating from Hong Kong Baptist University with an accounting degree and a masters in accounting and finance at the London School of Economics, Lo started his career at EY as an auditor working on capital market transactions while gaining his CPA designation. “The hours were long, the tasks were difficult, but looking back it was a great experience,” he says.

Lo says his audit experience and CPA training has been instrumental for handling issues in his current role, not just because of the technical skills he picked up but also because it broadened his understanding of business. “When I was an auditor, I got to look at confidential information about a company. Each invoice had a story behind it, for example, of why a company was investing in a certain business initiative. Gradually, I developed this sense of business that has become a part of me,” he says.

“I also had the chance to work with investment banks and I saw how financing transaction is done, how banks help companies to succeed, and I realized I could do it too. I started knocking on the doors of investment banks and eventually got my foot in the door,” he adds. After more than three years at EY, Lo joined the Asia-Pacific investment banking team of Citigroup as a vice president, completing initial public offering transactions, mergers and acquisitions, and fundraising.

He credits his time at Citigroup as influencing his priority of recruiting people who fit in with the corporate culture. “I did a lot of technology transactions, and something that I saw in all of these successful technology companies is that they were a start-up at one point in time and managed to grow rapidly. As I worked with them, I saw patterns of success, and something that kept coming up from time to time is that strong team and culture. While people are important, people are just one part of it. If the company doesn’t have


a strong culture, you cannot maximize the potential of the team. So after working with these successful technology companies, I developed this way of thinking when building a team and this has become my guiding principle since then.”

In recent years, Prenetics has been actively pursuing opportunities and making deals to drive growth, which is where Lo taps into his investment banking experience. One example is Prenetics’ move in October 2020 to acquire Oxsed, a spinoff of Oxford University that developed a rapid viral RNA test for COVID-19, which is able to deliver accurate test results without a lab within 15 to 30 minutes, compared with the “gold standard” PCR test, which takes one to two days. “The year before that we had a technology transfer agreement signed with New Horizon Health, a company in China that develops a highly accurate colorectal cancer DNA test, the only one approved by China’s National Medical Products Administration. The year before we did our fundraising, so we have been very aggressive to make sure we achieve our business goals,” says Lo.

But at the same time, when Lo wears his accountant hat, he’s cautious. “I’m conservative in managing the financials of the company. My CPA training has a long-lasting impact on how I think about risk. We have to make sure that our accounting policies are prudent, and that we are accountable for our performance and have a healthy balance sheet.”

Post-COVID potential

Lo first met Prenetics Co-founder Danny Yeung at a technology conference. “He had charisma and talked about his vision of disrupting healthcare, but his background was in e-commerce. I was thinking either he was onto something or he was crazy,” recalls Lo. Moved by the entrepreneur’s ideas and foresight, Lo got in touch with Yeung, and later left investment banking.



“My CPA training has a long-lasting impact on how I think about risk. We have to make sure that our accounting policies are prudent, and that we are accountable for our performance.”



Lo started his career at EY as an auditor working on capital market transactions. He was there for more than three years.

Lo took a deep salary cut – and a career risk – to join the start-up. “When I came across Danny and Prenetics, I was reminded of the pattern of success I saw from my other clients. Danny thought healthcare was ripe for disruption, which I think he was spot on because healthcare hasn’t changed in the past decades. COVID-19 exposed how unprepared the global healthcare system was,” says Lo, adding that caring for the sick was more reactionary than preventive.

There are therefore huge opportunities in preventive healthcare, says Lo. He notes that

the company is currently working on developing 30-minute home test kits for COVID-19, influenza, sexually transmitted diseases and other infectious diseases. “Imagine waking up one day feeling a bit sick, testing yourself at home, and 20-30 minutes later getting an accurate result of the type of illness you have. You would know whether to stay home and rest or go straight to the hospital,” Lo explains.

In the meantime, the work of helping everyone return to normalcy continues. Lo says that next month, Prenetics will launch a new at-home testing device for

COVID-19 that has already been approved by health regulators in Hong Kong and the U.K. But what will happen when the world returns to pre-COVID normal? Lo believes that the demand for testing for various illnesses will continue to surge. “That would be a great day,” says Lo. “But even if COVID-19 goes away, testing is here to stay. In the past, it was difficult to explain to people what we do as a company. Now, even my grandma knows what a PCR test is, and so that kind of awareness about health and genomics has changed this sector forever.”

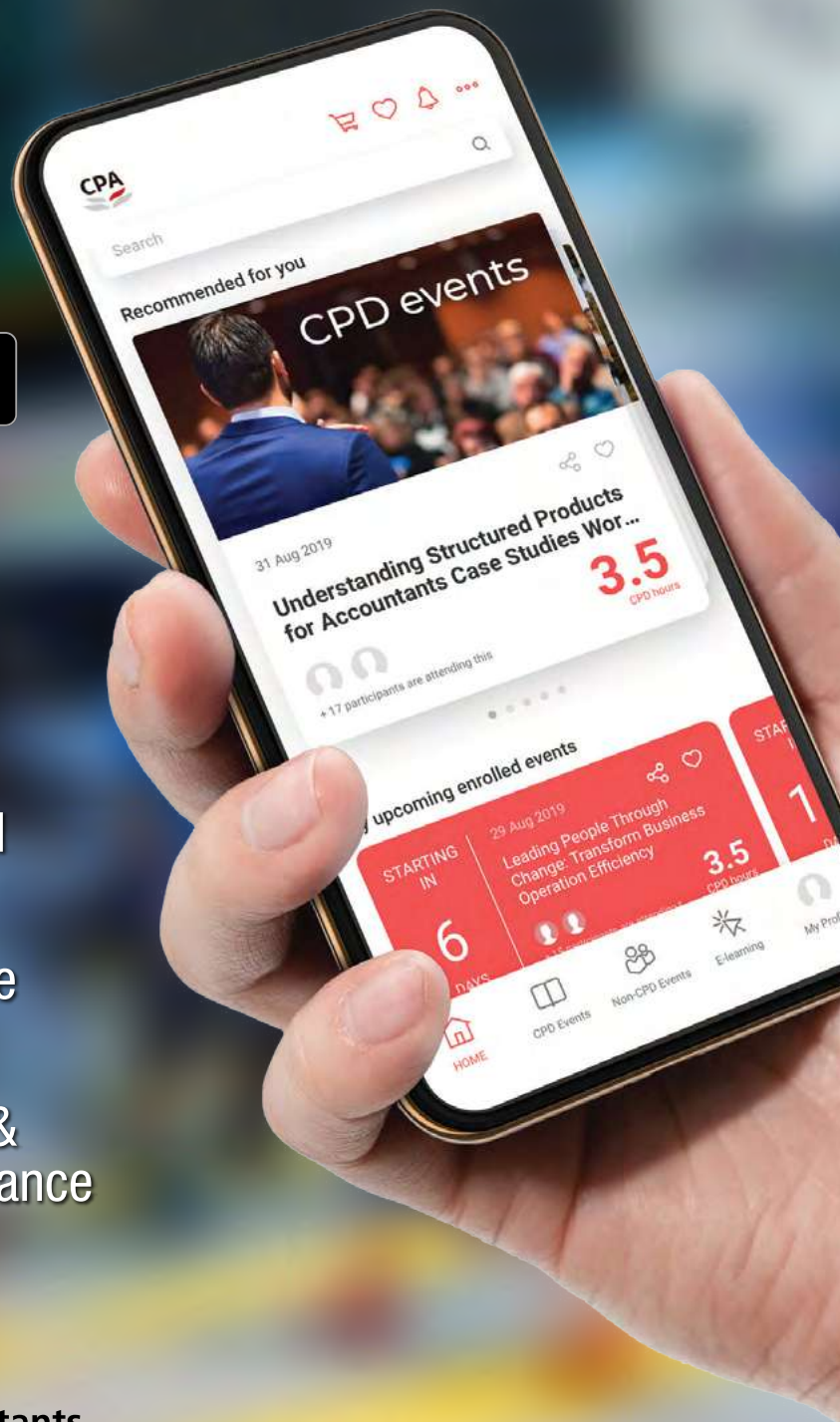


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Meeting the demand for ESG reporting

A webinar and part of the COP26: Race to Zero Webinar series on the IFRS Foundation's work in ensuring sustainability reporting is on par with financial reporting



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The finance profession needs to adapt to climate risks and place greater emphasis on environmental, social and governance (ESG) matters.

Discussion about the importance of climate and ESG-related matters has increased but, with possibly the limited exception of the IFRS Foundation, all this talk has not translated into noticeable changes in the profession. For now, there are simply not enough accounting and auditing professionals with the requisite understanding of the potential impact of ESG and climate change on the company operations and financial statements.

As part of the ongoing discussion, the Institute's COP26: Race to Zero Webinar series explores the IFRS Foundation's efforts to create an International Sustainability Standards Board (ISSB) that would stand along with the International Accounting Standards Board (IASB) in setting standards for ESG and climate change reporting to match traditional financial reporting requirements. The IFRS Foundation has plans to have the ISSB in place before the COP26 UN Climate Change Conference in November in Glasgow.

Climate-related financial disclosures are increasingly important for companies around the world. In the very near future, it may be impossible for auditors to sign off on accounts without a clear understanding of potential impairments of assets or write-downs that could be caused (or have been caused) by climate change or ESG-related matters. However, at a practical level, there may simply not be enough focus within the profession to meet the significantly higher ESG and climate reporting requirements that companies will have to meet in the years ahead. This is not only a Hong Kong issue, but a global one.

These risks are no longer distant or theoretical considerations. They are very real and immediate. Flooding in coastal areas could affect agricultural production, manufacturing facilities, real estate holdings or mortgages, to name a few examples of potential impacts on business revenues. There are also transition risks to consider. Mainland China, for example, has plans in place to hit the peak of carbon emissions by 2030 and be carbon neutral by 2060.

The accountant of the future will need to have a thorough understanding of ESG topics. Financial institutions like banks, insurance companies or

asset management companies are all looking for ESG professionals with a financial background. These individuals are few and far between, for now. This also means that there are significant opportunities for those in the profession – who are willing to proactively upskill themselves – to be proficient in ESG matters.

The implementation of the ISSB could help raise the urgency of the issue. In Hong Kong, the Green and Sustainable Finance Cross-Agency Steering Group developed a strategic plan with five action points to implement in the near term, including requiring disclosures aligned with the Task Force on Climate-related Financial Disclosures recommendations by 2025, as well as adopting a common taxonomy, supporting the establishment of the ISSB, promoting the use of more climate-focused scenario analysis and creating a platform to coordinate cross-sectoral capacity building. Upskilling future finance professionals with ESG skills will be key for Hong Kong to remain competitive going forward.

About the webinar

At the webinar on 5 July, hear from Ashley Alder, Chief Executive Officer of the Securities and Futures Commission, and Chairman of the Board, International Organization of Securities Commissions, about how Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group is preparing for the application of the ISSB climate reporting standards in Hong Kong. Teresa Ko, Vice-chair of IFRS Foundation, provides insights into the next steps at the IFRS Foundation for the creation of the new board. Panellists, including myself, discuss the key considerations that are critical for the success of the ISSB, and what companies and their auditors need to do to prepare for reporting in accordance with ISSB standards.

The time is right to develop more talent with in-depth expertise in this increasingly important intersection between ESG and climate reporting requirements and finance. The profession has a golden opportunity to prioritize talent and professional development in these areas and lead the way forward, rather than be left to react to changes forced upon by regulators.

If you can't make the webinar, look out for the recording, which will be available soon after alongside others from the series on the Institute's website.

Reconsidering consolidation, joint arrangements and related disclosures

A summary of specific areas of the Institute's response to the IASB request for information on IFRS 10, 11 and 12

International Financial Reporting Standard (IFRS) 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* (the standards) became effective for annual reporting periods beginning on or after 1 January 2013. Companies with subsidiaries and joint arrangements apply these standards when preparing their group financial statements.

In May, the Institute's Standard Setting Department responded to the International Accounting Standards Board's (IASB) request for information (RFI) on the standards. The RFI sought feedback from stakeholders on the application of the standards and how useful the resulting information has been. The IASB will use the feedback from the RFI to determine whether any further action is required.

This article summarizes specific areas and highlights points of our response to the RFI. The full response is available on our website.

Overall, we consider the application of the standards can be challenging and often involves significant judgement. We suggest the IASB reiterate the need for preparers to **disclose clearly any significant judgements** made when applying the company's accounting policies.

Control assessment under IFRS 10

We consider **the principle of control in IFRS 10 has been operating largely as intended**. However, we noted from our outreach activities that respondents had the following practical difficulties:

a) Determination of whether rights are substantive or protective

We noted that challenges are often

seen in the real estate and the asset management industries, and when trusts or special purpose entities (SPE) are involved. For example, diversity in practice is noted in determining whether a veto right exercisable by a lender on the investment decisions of a borrower is substantive or protective. The application guidance in IFRS 10 would imply such a right is protective. However, if the investment decisions are significant to the returns of the borrower, such a right could be viewed as substantive.

b) Assessment of de facto control

We noted that challenges in assessing control in situations without a majority of voting rights arise regularly in Hong Kong. The increasing use of sophisticated structures is making this problem worse, in addition to placing more pressure on the general control assessment.

One of the practically challenging situations identified is when an investor has de facto control over an investee, and then, due to share dilution, the percentage of shareholding held by the investor decreases over time. If there are no other changes in facts and circumstances, questions may arise as to when the investor loses control over the investee.

IFRS 10 does not provide a minimum level of voting rights needed to achieve de facto control, and requires companies to look at all facts and circumstances. Hence, we consider the application of the requirements and guidance in IFRS 10 is highly judgemental and similar fact patterns could be interpreted differently.

c) Decision-maker: principal or agent?

The assessment of whether a decision-

maker is a principal or an agent can be challenging and highly judgemental, particularly in the fund and asset management industries.

IFRS 10 requires a decision-maker that holds other interest in an investee to consider its exposure to variability of returns from those interests in assessing whether it is an agent. Assessing the exposure to variability of returns inevitably involves judgement, and IFRS 10 has limited guidance on whether more emphasis should be placed on magnitude or the variability of the returns, and how the different nature of returns impacts that assessment. For example, there are cases where the absolute amount of returns is small while the variability could be substantial. Questions arise as to whether other factors should also be considered, e.g. the amount as a percentage of the total expected returns.

d) Assessment of the existence of de facto agency relationships

We generally observed that non-contractual agency relationships are common among group companies, in the asset management industry, and when SPE are involved.

We believe that the de facto agency guidance in IFRS 10 is a well-meaning piece of guidance, but it is highly judgemental to apply in practice. In particular, it is practically difficult to determine whether a de facto agency relationship exists in the absence of a contractual arrangement.

In light of the above, we recommend that the IASB develop additional non-industry specific examples to illustrate the principles in the above areas to facilitate application.

Accounting for loss of control

Diversity in practice has been observed in accounting for the partial disposal of a subsidiary that results in a loss of control, where the subsidiary does not constitute a business under IFRS 3 *Business Combinations*. Some companies remeasure the retained interest at fair value while others adopt a cost-based approach.

Questions also arise when accounting for transactions involving single-asset entities or corporate wrappers as to the interaction between the accounting for loss of control requirement in IFRS 10 and the recognition of gain or loss in other IFRSs; in particular, whether the accounting should be driven by substance or form.

Given the above, we believe that it's important for the IASB to consider the accounting for transactions involving single-asset entities or corporate wrappers more holistically, including whether the requirements in IFRS 10 are applicable to disposals of a subsidiary when the subsidiary does not constitute a business and how that interacts with the recognition of gain or loss in other IFRSs.

Accounting for collaborative arrangements

Collaborative arrangements, which are outside the scope of IFRS 11, are relatively common in Hong Kong. **It is often difficult to classify collaborative arrangements appropriately**, e.g. is it a joint arrangement under IFRS 11, an associate under International Accounting Standard 28 *Investments in Associates and Joint Ventures*, an equity investment under IFRS 9 *Financial Instruments*, a debt-type loan, a supplier-customer relationship, a prepayment for future expenditure, etc.?

In some cases, these collaborative arrangements are not joint arrangements

because the contractual terms imply one party has control and another has significant influence (though the arrangement is collaborative in nature); or there are other factors that affect the voting power of the arrangement. These arrangements are also often not structured through a separate legal entity which increases the challenge of classification.

There is currently a lack of guidance in this area and challenges arise in determining how to characterize and classify such arrangements, resulting in diversity in practice. Hong Kong stakeholders have also reflected that the accounting treatments used in practice do not always provide relevant or useful information for such arrangements.

Accordingly, we recommend that the IASB develop clear principles for collaborative arrangements to better reflect the substance of those arrangements.

Classifying joint arrangements

IFRS 11 requires a company to apply judgement when assessing the classification of joint arrangements by considering the structure and legal form of the arrangement, the terms of the contractual arrangement and, when relevant, "other facts and circumstances." **Respondents found that the consideration of the "other facts and circumstances" in IFRS 11 is challenging and subjective.**

Classification challenges also arise when the arrangements are structured through a separate vehicle but the legal form is not clearly representative of the underlying economics. In practice it is difficult to draft appropriate contractual terms that can enable such arrangements to be accounted for as a joint operation

given that the legal form of the entity confers separation of the net assets from the parties to the joint arrangement. It is also often difficult for auditors to use "other facts and circumstances" to challenge management's classification based on the legal form and contractual terms of the arrangement.

In light of the above, we recommend that the IASB provide more detailed guidance on the application of "other facts and circumstances" in IFRS 11.

We are currently seeking comments on a number of consultation papers. Visit our website and talk to us so that we can help steer the development of accounting standards.



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

Institute's response to the IESBA exposure draft on definitions of listed entity and public interest entity in the code of ethics

Assessing the IESBA's proposals to broaden the definition of a public interest entity

Auditors, when carrying out audit engagements, are required to comply with the independence requirements set out in the Hong Kong Institute of CPAs' *Code of Ethics for Professional Accountants* (code). Auditors of public interest entities (PIE) must comply with more stringent independence requirements.

In May, the Institute responded to the International Ethics Standards Board for Accountants (IESBA) Exposure Draft (ED) *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*. The submission is available on the Institute's website.

The ED proposed revisions to the code that broadens the definition of a PIE and also:

- Introduce an overarching objective for additional requirements to enhance confidence in the audit of financial statements of PIEs.
- Provide guidance on factors to consider when determining the level of public interest in an entity.
- Broaden the definition of PIE to additional categories of entities.
- Replace the term "listed entity" with the term "publicly traded entity" and redefine that PIE category.
- Introduce new requirements for firms to determine if additional entities should be treated as PIEs for independence purposes and to publicly disclose if an audit client was treated as a PIE.
- Recognize and encourage local regulators to refine PIE categories in regard to national conditions.

These points, and the views of the Institute, are considered in this article.

Overarching objective

The IESBA's overarching objective is to refine the definition in the international code so that when determining which entities should be categorized as PIEs in the local code, local bodies assess the public interest in the financial condition of an entity (i.e. how its financial success or failure may impact the public) and not the public interest in other aspects of that entity such as the quality of the products or services it provides, the manner in which it delivers those products or services, or the nature of the data the entity holds.

Institute's views

Overall, the Institute supports the overarching objective. However, the definition of "financial condition" is unclear and distinguishing the "financial condition" and other aspects of the entity in practice may be challenging due to interlinkages. The Institute also highlighted that the auditor, in general, has no responsibility for the "financial condition" of the entity other than providing an audit opinion on the financial statements based on its audit work.

Broad approach

The IESBA's proposed broad approach uses a longer and more broadly defined list of categories than the extant code, which only has a narrow list of entities to which local bodies can add. The broad approach comprises three key elements:

- The development of a longer and broader list of high level categories of entities as PIEs in the IESBA code;

- Refinement of the IESBA definition by relevant local bodies by tightening definitions, setting size criterion and adding new types of entities or exempting particular entities; and
- Determination by firms if any additional entities should be treated as PIEs.

Institute's views

It would be difficult, if not impossible, to develop a single global definition of PIEs that can be consistently applied by all jurisdictions without modification and further refinement at a local level.

The Institute received mixed views on the proposed broad approach. Some stakeholders have expressed concerns that the approach will drive increased differences between jurisdictions. They are of the view that the extant provisions in the code allow jurisdictions to add to the list of PIEs where necessary under local laws and regulations. There are concerns that the approach will spill over to other sections of the code and have unintended consequences.

PIE definition

The IESBA proposed a new term "publicly traded entity" to replace "listed entity" in the code. This is intended to scope in more entities, as it is not confined to shares, stock or debt traded only in formal exchanges but also encompasses those over-the-counter trading platforms. The new term also aims to remove the confusion created by the term "recognized stock exchange" in the extant definition.

The IESBA also expanded the PIE categories other than "publicly traded entity"

to include banks, insurance companies, entities providing post-employment benefits, collective investment vehicle and an entity specified as such by law or regulation to meet the objective set out.

Institute's views

The Institute supports the proposal for the new term "publicly traded entity" as it would expand the scope of an entity and reduce confusion.

Stakeholders expressed views that converged definitions of "PIE" and "publicly traded entity" should be developed by international standard setters. Though this may be difficult in practice, converged definitions would be helpful to minimize the expectation gap on financial reporting and auditing among stakeholders.

The Institute supports the expanded categories and sought further clarification on the term "law and regulation."

Role of local bodies

Another component of the broad approach is the local refinement of the IESBA's final revisions by the relevant bodies such as regulators or oversight bodies, national standard setters and professional accounting bodies through tightening definitions, setting size criteria and adding new types of entities or exempting particular entities.

Institute's views

The Institute recommends clarifying the proposed requirement to state clearly the role of local bodies to refine the PIE list for the purpose of requiring additional independence requirements on auditors.

Additional guidance from IESBA to support local bodies before and during the implementation stage would be helpful.

Role of firms

The proposed third component of the broad approach is that firms are now required to determine whether to treat additional entities or certain categories of entities, as PIEs, rather than encouraged to as in the extant code.

Institute's views

The Institute expresses the significant concern and disagreement from local stakeholders on the proposal. Stakeholders from the small and medium practice community highlighted Hong Kong's requirement of a statutory audit for most of the entities and corporations. The proposed revision may impose a significant amount of cost and undue pressure on these practitioners to assess whether each client is a PIE at the client acceptance and engagement continuance exercise.

Stakeholders also commented that the "reasonable and informed third party" approach would often be taken as hindsight. Regulators may question a firm as to why an entity in a certain industry has not been treated as a PIE where peers have treated entities in the same industry as a PIE before market practice or norms are established. The Institute recommends that the IESBA re-consider the proposal.

Transparency requirement for firms

The IESBA recognized that one side

effect of its proposals may be increased uncertainty by the public as to whether an entity has been treated as a PIE by a firm given the local variations that might arise and the new requirement on firms to determine additional PIEs. To address this issue, the IESBA proposed a new general requirement for a firm to disclose whether an entity has been treated as a PIE without at this stage stating how that disclosure should be made.

Institute's views

The Institute expresses concerns about the proposal and is of the view that the benefits of having this disclosure is less than its potential cost and may lead to unintended consequences. Having such a statement without providing additional context to users may create confusion and add to the expectation gap between stakeholders and auditors.



*This article was contributed by **Selene Ho** CPA, Deputy Director, and **Norman Chan** FCPA (practising), Associate Director, of the Institute's Standard Setting Department. Visit the department's "What's new" webpage for our latest publications, and follow us on LinkedIn for upcoming activities.*

TECHNICAL NEWS

The latest standards and technical developments

Members' handbook

Update no. 262 relates to the publication of *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (amendments to Hong Kong Accounting Standard 12 *Income Taxes*).

Financial reporting

Invitation to comment

The Institute is seeking comments on the International Accounting Standards Board (IASB) Exposure Draft ED/2021/6 *Management Commentary* by 8 October.

Recordings of IASB webinars on the Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach*

Recordings of the webinars on the IASB Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach* are now available on the IASB's YouTube channel. They cover the IASB's proposals in developing disclosure requirements in International Financial Reporting Standards (IFRS) and new disclosure requirements for IFRS 13 *Fair Value Measurement* and International Accounting Standard (IAS) 19 *Employee Benefits*. The recording of the first webinar, providing an overview of the exposure draft and the second webinar will cover detailed and particular aspects of the proposed approach, such as comparability, enforceability and electronic reporting.

Members can submit their comments on the exposure draft to the Institute by 31 August.

Recordings of IASB presentations

Recordings are now available of the two presentations delivered by the IASB to attendees of the European Accounting Association Virtual Congress. The recordings provide an overview of the IASB Request for Information *Third Agenda Consultation* as well as progress of other projects. The Institute is seeking

comments on the request for information by 10 August.

IFRS Interpretations Committee agenda decisions

The IFRS Interpretations Committee published two agenda decisions on 24 May:

- IFRS 9 *Financial Instruments* covering hedging variability in cash flows due to real interest rates.
- IAS 19 *Employee Benefits* covering the periods of service to which an entity attributes benefit for a particular defined benefit plan.

May IASB update and podcast

The May *IASB Update*, highlighting the tentative decisions reached at the IASB monthly meeting, and the May podcast, focusing on the IASB discussions at its monthly meeting, are now available.

Speech by the IASB Chair

Hans Hoogervorst, Chair of the IASB, delivered a speech at the IFRS Foundation Virtual Conference 2021 reflecting how IFRSs have evolved during his 10-year tenure and the importance of independent standard setting.

Auditing and assurance

Invitation to comment

The Institute is seeking comments on the International Auditing and Assurance Standards Board (IAASB) Survey Consultation, the IAASB's *Work Plan for 2022-2023* by 5 July.

Webinars on quality management standards

The IAASB and the International Federation of Accountants (IFAC) will hold a series of webinars on International Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* via Zoom, including question and answer sessions. Recordings will be available on the IAASB's

YouTube channel afterwards. Register now for webinars on 29 July, 5 August and 18 August.

Webinar on climate risk in statutory audit

Join the Institute of Chartered Accountants in England and Wales' webinar on 12 July on climate risk in the statutory audit. It considers how auditors are taking account of climate-related risks and offers practical tips for improving audit quality in this area.

IAASB auditor post-implementation review feedback statement

The IAASB published a feedback statement after its post-implementation review of auditor reporting. It summarizes the key themes and views shared by respondents as well as a roundtable discussion held in September 2020.

The Institute's Auditing and Assurance Standards Committee meeting minutes

Minutes of the meeting held in April is now available.

IAASB May board meeting

The audio recording of the IAASB May board meeting is now available.

Ethics

Ethical leadership in an era of complexity and digital change

Read the event highlights of a global roundtable exploring how professional accountants continue to add value in the digital world. A recording of the spark sessions and breakout discussion debriefs is also available.

Sustainability

IFRS Foundation Trustees webinar update on sustainability project

The IFRS Foundation Trustees invite interested stakeholders to register for live webinars on 7 July, which will

provide an update on the work on setting up a proposed International Sustainability Standards Board. The webinars will summarize the feedback gathered during the Trustees' 2020 Consultation and outline the Trustees' strategic decisions and the remaining steps before the Trustees make a final determination on the new board by the United Nations COP26 conference in November.

IFRS Foundation response to G7 finance ministers' communique regarding global sustainability standards

The IFRS Foundation provided comments on the communique issued by the G7 finance ministers that referenced ongoing work of the Trustees to consider the formation of a new sustainability board within the governance structure of the IFRS Foundation.

IFRS Foundation establishes Eminent Persons Group

The IFRS Foundation has established an Eminent Persons Group to provide strategic advice and counsel to the Trustees on the proposed formation of the International Sustainability Standards Board and its connectivity with jurisdictional initiatives. Its work complements other working groups and committees established to support the IFRS Foundation's determination of its role in sustainability-related financial disclosures. The Institute is seeking comments on the IFRS Foundation Exposure Draft ED/20215 *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards* by 2 July.

Coprorate finance

Institute submission on HKEX consultation on listing regime for overseas issuers

The Institute issued a submission in response to the consultation paper

published by Hong Kong Exchanges and Clearing Limited (HKEX) seeking public feedback on proposals to enhance and streamline the listing regime for overseas issuers.

The Institute's Corporate Finance Advisory Panel generally supports the underlying aims of the proposals to address the fragmented and, to some extent, inconsistent regulatory requirements for different kinds of overseas issuers. However, there are reservations about proposals to allow grandfathered overseas issuers with non-compliant weighted voting rights and/or variable interest entity structures to apply for dual primary listing directly on the Hong Kong Stock Exchange and for these companies, and also companies with a secondary listing in Hong Kong, to retain their non-compliant structures even if they are de-listed from the exchange where they have a dual primary or primary listing. The concern is that this would create different regulatory regimes for different issuers with primary listings in Hong Kong, depending on whether they were listed only in Hong Kong at the outset or originally held a primary listing or dual primary listing on an overseas exchange.

HKEX's consultation conclusions on Main Board profit requirement

On 20 May, HKEX released consultation conclusions on the Main Board profit requirement (MBPR). In particular, there will be a 60 percent increase in the MBPR to HK\$80 million over the three-year trading record period and the profit spread will be revised. This is substantially reduced from the original proposals in the consultation paper of either a 150 percent or 200 percent increase in the minimum aggregate profit requirement. Please refer to the press release for details. The new requirements will take effect from 1 January 2022.

Please also refer to the Institute's submission, objecting to HKEX's proposal to increase the minimum MBPR.

HKEX's consultation conclusions on Review of Listing Rules Relating to Disciplinary Powers and Sanctions

HKEX also released consultation conclusions on the Review of Listing Rules Relating to Disciplinary Powers and Sanctions. To summarize, HKEX will implement all the proposals relating to disciplinary powers and sanctions, with minor modifications, to bring disciplinary actions against a broader range of individuals. Please refer to the press release for details. The new rules will take effect on 3 July 2021.

Please also refer to the Institute's submission. While HKEX will proceed to extend a broader range of possible sanctions to professionals as well as listed companies, their directors and senior management, it is made clear in a note to the new rules (Rule 2A.10B(3)) that sanctions are subject to the existing arrangements between the HKEX and professional regulatory bodies – including the Institute.

Insolvency

HKSAR and Mainland sign record of meeting concerning mutual recognition of and assistance to insolvency proceeding

The Secretary for Justice of the Hong Kong Special Administrative Region (HKSAR) Government and the Vice-President of the Supreme People's Court signed the record of meeting concerning mutual recognition of, and assistance to, insolvency proceedings between the courts of the Mainland and the HKSAR. Please refer to the press release for details.

This signing comes after discussions between the HKSAR Department of Justice (DoJ) and the Mainland authorities. Some Restructuring and Insolvency Faculty (RIF) Executive Committee members assisted the DoJ and the RIF also submitted information on practical issues faced by Hong Kong insolvency practitioners working in the Mainland.

Read more in this month's Thought Leadership on page 25.



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www.hkicpa.org.hk/en/members-area/hkicpasource/

Taxation

Annual meeting with the IRD

The annual meeting between representatives of the Institute's Taxation Faculty Executive Committee and the IRD took place on 14 May. At the meeting, the IRD confirmed the extended due dates for lodging profits tax returns for the year of assessment 2020/21. These are:

Accounting date code	Extended due date	Further extended due date if opting for e-filing
"N" code	31 May 2021	15 June 2021
"D" code	16 August 2021	30 August 2021
"M" code	15 November 2021	29 November 2021
"M" code - current year loss cases	31 January 2022	No further extension

Convenience of eTAX

The Inland Revenue Department (IRD) encourages taxpayers to consider filing their tax return through the IRD's eTAX gateway to enjoy personalized online tax services. To save paper, taxpayers can select to receive electronic notices and documents.

Announcements by the IRD

Members may wish to be aware of the following matters:

- Passage of Inland Revenue (Amendment) (Miscellaneous Provisions) Bill 2021. This bill implements four areas of amendments to the Inland Revenue Ordinance: (i) the tax treatment for amalgamation of companies under the court-free procedures as provided for

under the Companies Ordinance; (ii) the tax treatment for transfer or succession of specified assets under certain circumstances; (iii) refining the statutory framework for the furnishing of tax returns, including paving the way for an expansion of e-filing; and (iv) enhancing the foreign tax deduction regime. The amendments will come into operation on 11 June. Amendments in relation to foreign tax deduction will take effect from the year of assessment 2021/22.

- Interest on Tax Reserve Certificates.
- Legislative Council question on pursuing development in the Mainland cities of the Guangdong-Hong Kong-Macau Greater Bay Area.
- Legislative Council question on re-industrialization in Hong Kong.
- Legislative Council question on profits tax.
- Enhanced employer's application services – e-Application for preparation of IR56 Form(s) by using employer's self-developed software.
- Tax obligations of taxpayers and employers.
- Online Appointment Booking for Stamp Office Lease Counter Service.
- Stamp Duty statistics.

Legislation and other initiatives

Consultation conclusions on Legislative Proposals to Enhance Anti-Money Laundering and Counter-Terrorist Financing Regulation in Hong Kong

On 21 May, the Financial Services and the Treasury Bureau released consultation conclusions on the legislative proposals to enhance anti-money laundering and counter-terrorist financing regulation in Hong Kong. Please refer to the press release for details.

Please also refer to the Institute's submission for your information.

Announcements by the government

Members may wish to be aware of the following matters:

- Government further tightens quarantine

and testing arrangements for persons arriving from Taiwan and Singapore.

- Target date of inaugural flights under Hong Kong-Singapore Air Travel Bubble deferred.
- Government gazettes compulsory testing notice and specifications under Prevention and Control of Disease (Compulsory Testing for Certain Persons) Regulation.
- Government announces enhanced anti-epidemic measures for designated quarantine hotels.
- Government extends social distancing measures under Prevention and Control of Disease Ordinance.
- Government adjusts testing requirements for certain persons arriving at Hong Kong.
- Government adjusts boarding and quarantine requirements for persons arriving from certain places.

AML notices

United Nations Sanctions (Yemen) Regulation 2019 (Amendment) Regulation 2021 was gazetted on 28 May.

For the current lists of terrorists, terrorist associates and relevant persons/entities under United Nations sanctions, members should refer regularly to the Institute's AML webpage. Other useful documents and guidance can also be found on the same page.



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

WORK AND LIFE
CPA Virtual Run winners



BEATING THE CLOCK

Running a 10-kilometre race – and finishing first with a record time – is a feat most runners aspire to achieve. CPA runners who took part in this year's CPA Virtual Run tell [Erin Hale](#) why they started jogging and share their tips on going fast without running out of breath

Photography by Anthony Tung

For Tung Chi Man CPA, who clocked in at 38:16 to win the men's 10 km and be crowned King of the Hong Kong Institute of CPAs' CPA Virtual Run 2021, running isn't only a hobby but a lifelong passion. Though he used to work at a listed group as a senior accountant, he has been on a career break since the end of 2018 to train full-time as a marathon runner, with the hope of becoming a professional athlete.

Tung's long-term goal is to run a marathon in under two and a half hours, which requires rigorous training most of the week consisting of long distance runs, interval training and supplementary exercise such as weight training.

Despite his winning time, Tung says that he had fallen into the common trap of "overtraining" the week of his run and was a little off his mark. "Normally, I can run a 10 km in 36 to 37 minutes in this temperature," he says, referring to the city's often stiflingly hot weather. "I did high intensity exercise before the race so I was not well rested."

Tung started running in his late 20s. He began running for fun with his friends, slowly increased his distance over time, and was eventually able to run a full marathon. Learning how to train properly has been a process for him, but he has learned a lot from elite Hong Kong runners as well as his running coach, who helped him organize a trip to Kenya in 2019. Over the three-month trip, he was able to train with experienced local runners at a high altitude which, he says, improved his oxygen efficiency while running.

Since returning to Hong Kong, Tung typically runs at Kowloon Tsai Park near his home to save on commute time as he often exercises more than once per day. Training during Hong Kong's humid summer months make it a challenge for runners like Tung, but he is committed to beating his previous 10 km record in the next event and continue running for as long as he can. "I still want to know how far I can go," he says.

Finding the right motivation

For Yam Tsz Man CPA, the CPA Virtual Run 10 km marked her return to racing after a lengthy break. Yam, who was crowned Queen of the CPA Virtual Run, credits her ongoing training with helping her to achieve her personal best during the virtual run with a finishing time of 48:58.

She is preparing for the Hong Kong Standard Chartered Half Marathon, which will be held in October this year after several delays. "I haven't joined a race for more than two years, so when I saw the CPA Virtual Run, I thought it was time for me to test myself to see how I was doing after a year of training," says Yam, Accountant at Tricor Greater China Limited, who chose to run her race at the sports ground near her home.

Many long distance runners like Yam like to add shorter races to their training schedules as a motivation for their race day. Yam has already had to cut down some of her outdoor training due to the hot weather, but the virtual 10 km helped to keep her on track.

Besides attending a running club on Fridays, Yam says she typically tries to run at least 40 km a week when training for a race, including a long run on Sundays of 14 km. She keeps track of her runs using her smartwatch and running app to make sure she is on target for the week.

Yam says finding places to run to shake her training up can often be tricky. "Hong Kong is quite small, so it's not really easy to find some place you can run for such a long period of time. I don't want to feel bored every time, so I run along Castle Peak Road or along Shing Mun River. I also like to run near my home by Stonecutter Bridge. For my short runs, I usually run at the sports ground," she says.

Running at pace

For Ricky Wong CPA, winning the CPA Virtual Run mixed gender 10 km race with a finishing time of 1:32:09 involved setting targets and close communication with his running partner before the race.

Though he and his running mate Carol Chan trained for the race separately, they kept in touch over WhatsApp to set goals and discuss their runs. “We set a target for each run, regardless of the running distance,” says Wong, Examiner at the Audit Commission. “We also shared with each other how to run better or how the weather affected our performance.”

As race day neared, Wong encouraged Chan with messages saying “加油!” Cantonese slang for “add oil,” often used to motivate someone to complete a task. “Because running is usually something you do alone, running together with a partner can be very encouraging. How long and fast we run depends on our combined willpower and determination,” Wong adds.

Wong, who is also an avid swimmer, resorted to running along his apartment’s clubhouse running path to maintain his cardiovascular health. “I haven’t joined any other races before because I am not much of a runner, so taking part in this virtual 10 km race was all new to me,” says Wong.

“Because of COVID-19, all sports centres and swimming pools were closed – so the only sport I had was

running. I would usually go for a run on the clubhouse pathway and run 5 to 6 km. I would run this distance to build strength as a part of my swim training,” he says.

Wong says he approached this virtual race similar to how he would approach a long distance swim. He knew that a typical run would be 12 laps around his clubhouse, so he estimated the race would take about 24 laps. From there, he was able to break it down in his head to keep pace and complete the 24 laps in 44 minutes.

“I participated in a fun run last year. It was quite difficult for me because I was not familiar with the running path. I would think, ‘Oh how much further is the end point?’ I couldn’t estimate it. But this time, I knew it was 24 laps, so I could evenly distribute my effort during each lap.”

To keep himself motivated, Wong uses the Nike Run Club app, which both records runs and plays automated messages of encouragement every kilometre. “The recording encourages me to run further and further. I love this app,” he says. Wong and Chan also swapped suggestions on “tempo runs” where runners try to maintain a certain pace, or the best “guided runs,” where a coach speaks to the runner throughout,

coaching them virtually on the app.

While Wong surprised himself with his race results, he says that he plans to return to his true passion of swimming over the next few months with pools now open. Wong still plans to keep up running as part of his cross-training because he has found it to be more convenient to run outside or on a treadmill than travelling to a sports ground for a swim. He has no fixed plans yet, though, to join another race.

Running through the pain

Carol Chan, Wong’s running partner, was in the middle of the virtual run when suddenly she experienced what every runner dreads – her leg began to cramp up.

She had prepared well, choosing to run around Quarry Bay Park one evening when temperatures are generally cooler. But even so, cramps can impact any runner. “I got a muscle cramp in my leg because I ran at full speed at the beginning. Luckily, I could finish the race – I haven’t raced in two years,” says Chan, Senior Examiner at the Audit Commission.

Although Chan does not consider herself a runner, she has learned how to deal with pain from her experience

Tung Chi Man CPA was crowned King of the CPA Virtual Run in the 10 km race with a finishing time of 38:16.



Yam Tsz Man CPA, was crowned Queen of the CPA Virtual Run in the 10 km race with a finishing time of 48:58.





Carol Chan (left) and Ricky Wong CPA (right) won the mixed gender 10 km race with a finishing time of 1:32:09.

at other endurance events such as the Hong Kong Standard Chartered Half Marathon and the Hong Kong's New World Harbour Race across Victoria Harbor and three half-Ironman triathlons in Taiwan.

Though COVID-19-related travel restrictions have put a dent in many of her race plans, Chan has continued training as part of her routine. She tries to run one or two times a week and squeezes in a swim and some weight training to build strength and prevent injury.

Running, Chan says, has helped her to maintain her strength and positive attitude, especially throughout the pandemic. It is also one of the easiest sports to keep up with despite restrictions, as most people run alone, and no special equipment is required. "I jog about 6 km every day. I keep moving and doing exercise, and during the weekend I go hiking," Chan says. "If I don't exercise, I don't feel happy."

While the virtual 10 km helped Chan to keep up her training, she says she misses some of the highlights of a traditional race

like the crowds and running with a "pacer" – a designated runner who takes part in running events and runs at the front to help competitors maintain a certain speed throughout the race and meet their target times. She plans to return to more traditional competitions as they reopen this summer, including some long distance swims.

Planning your runs

Ahead of the next virtual race, the CPA Virtual Run winners suggested participants should all try to engage in some form of training. This can include making their own running plans, using a fitness app, or following an online training programme. Wong says new runners may find participating in a virtual run an easier way to try out racing for the first time than a traditional race, which can often seem expensive and intimidating.

"If someone wants to take part in the next virtual run, they should just try it," he says. "Joining a virtual race can be more relaxing because it's just you participating in the race. A virtual race is like

taking part in your daily training, and most importantly, the race can be held anywhere. You may have better race results because you are more familiar with the running route." The best way to ensure results, however, is to consistently train ahead of time, and also remember to warm up and cool down with each race to avoid injury, adds Chan.

Tung says that if virtual runners miss the support of the crowds, they could ask a friend to come run alongside them to keep up the pace, or just offer water and support from the sidelines.

Yam suggests new runners to set realistic targets and to start slow. "You don't have to be too harsh on yourself; just run at a comfortable pace. If you can only run for 15 minutes today, then run for 15 minutes – you don't have to time yourself or anything. But if you think this pace or this time is comfortable, then try 20 minutes the next time," she says. "See if you can find joy in it – because if you can't find any joy in running, then you won't maintain it."



The full results and photos of CPA Virtual Run 2021, including results of the funniest costume awards, the most lovely smile award, and the most creative running route award, are available on the Institute's website.



YOUNG MEMBER OF THE MONTH

Laura Au CPA

LAURA AU CPA

Corporate Auditor at
Arrow Asia Pac Ltd.





As Corporate Auditor at electronic component distributor Arrow Asia Pac Ltd., Laura Au CPA oversees the internal controls, compliance and overall operations of its Asia-Pacific offices. She tells *A Plus* how she made the jump from being an external to internal auditor, and why being an effective one involves being eager to learn, and knowing how to build trust

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

As Corporate Auditor, I'm responsible for the internal controls, operations and compliance with statutory requirements of our offices within the Asia-Pacific region. We act as an independent and reliable party at Arrow to ensure the right internal controls and corporate governance are upheld throughout the organization. I also find ways to improve the effectiveness of our risk management, which involves liaising with different process owners and regional heads to understand their operations. Lastly, we provide consultation and support to different stakeholders on ad hoc investigations and risk-based projects to eliminate any chance of fraud occurring. Things have been going quite well since I joined a year ago. Arrow is a multinational corporation based in the United States, so I also have the opportunity to communicate and work with our teams in the U.S., United Kingdom, South Korea and Taiwan, which I find very interesting.

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

The most rewarding aspect of my role is the opportunity for me to add value. My job involves constantly finding new ways to improve processes, so it's very rewarding when we see a positive outcome as a result of our suggestions being heard and then implemented by management. It's challenging finding ways to solve different non-accounting issues within tight deadlines in order to keep the ball rolling. I have to be a self-learner to pick up new skills and understand new concepts. For example, my team has been exploring opportunities to implement some data automation functions instead of always relying on data provided by those we are auditing. This seemed easy at the very beginning, but when it reached the implementation phase, it involved a lot of integration of different systems and software. Some of the processes required basic programming knowledge, but our team wasn't too familiar with this since we all come from finance or accounting backgrounds. Another challenge was understanding certain technical terms or special types of electronic components, such as different semiconductors, transformers, smartphone and smartwatch chips and computer hardware – some of which I wasn't familiar with at the beginning. So it took me some time to understand different processes before conducting the audit, for instance, how components go from the manufacturer to the warehouse, to the logistics department, and then to the customer.

What inspired you to become an accountant?

I was quite good with numbers and maths when I was a kid. I studied business, accounting and financial studies back in secondary school and I attained my degree in accounting and finance from the University of Hong Kong. After graduating, I really wanted to strengthen my skills in accounting so I started working at PwC as an external auditor. After four years, I moved to the commercial sector, which gave me the opportunity to drill deeper into each business process to really understand a company. I'm proud to have become an accountant and enjoy being an internal auditor. I'm a people person, so I'm lucky that I get to speak with different people and solve their problems as part of my role. You learn a lot through speaking with individuals who are from different regions and backgrounds.

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

It would be learning how to build trust with our process owners and clients, and to have them rely on you. Whether you work in external or internal audit, the job is to make sure things are done according to statutory and compliance requirements. It's also about confidently delivering the right message and communicating with management to earn their trust. This involves knowing how to listen to them and understanding their concerns before we recommend solutions – ones that could enhance control efficiency and also fulfil compliance requirements.

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 provided me with a strong foundation to build my knowledge in accounting standards, internal controls and corporate governance – all of which are essential factors in being an effective auditor. This knowledge has also helped me become a professional CPA who knows how to ensure the code of ethics and compliance are in place within the company. Back when I was an external auditor, I found Module A financial reporting to be most helpful as it covered a lot of audit-based knowledge. As an internal auditor, I found Module C business assurance to be an essential stepping stone in understanding what good internal controls and good corporate governance look like in a company.

SPOTLIGHT ON ART IN THE CITY

Institute members recommend the best art to see in the city

Hong Kong Film Archive

“‘Out of the Past – From the Tai Ping Treasure Trove’ organized by Hong Kong Film Archive is a must-see exhibition for lovers of local theatre history. The exhibition, which runs until 17 October, will bring you back to when Hong Kong’s entertainment industry was in its prime back in the 1920s through the 1970s with 3D models of the architecture and artifacts of Tai Ping Theatre, a renowned entertainment spot in Shek Tong Tsui during that period. Accountants will also enjoy the exhibition – paper items including contracts and deeds, ledgers, account journals, production balance sheets, correspondences, building plans and advertisements of Tai Ping Theatre and the Tai Ping Opera Troupe are also on display,” says Lai.

- Angel Lai CPA, Assistant Vice President of Shanghai Commercial Bank (Financial Control Division)



Hong Kong Film Archive

Hong Kong Museum of Art

“I recommend ‘Mythologies: Surrealism and Beyond – Masterpieces from Centre Pompidou’ which is showing in the Hong Kong Museum of Art until 15 September. This exhibition features more than 100 of the greatest works by artists during the surrealist period, such as Giorgio de Chirico, Salvador Dalí, René Magritte, Joan Miró, Max Ernst, Man Ray and Jackson Pollock, from the collection of the Musée National d’Art Moderne, the largest museum for modern art in Europe,” says Cheng.

- Cathy Cheng CPA, Finance Manager at PLDT Global Corporation



Hong Kong Museum of Art

Sai Kung

“For fans of street art, I recommend heading to Sai Kung district. You can find large murals painted on walls in and around Sai Kung town. Near Man Nin Street, for example, you’ll see a mural of a koi fish drawn by local artist Kristopher Ho. Since HKwalls, an annual street art and mural festival, took place last month, there are also 20 more murals to find around the area,” says Cheng.

- Cathy Cheng CPA, Finance Manager at PLDT Global Corporation



Sai Kung

Credit: Debi C.

EYES & EARS

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



What I'm listening to

- Joseph Wan FCPA, retired

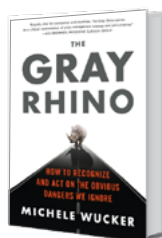
"I grew up in the rock and roll era and like songs from The Beatles. The more I listen to their songs, the more I realize how really talented they are as musicians, particularly John Lennon and Paul McCartney. My favourite song would be *I Should Have Known Better*. I like the harmonica introduction and this was the first song I ever heard from The Beatles."

What I'm reading



Survival in Auschwitz: If This is a Man is a memoir by Italian Jewish writer Primo Levi, who was imprisoned in Auschwitz – the largest German Nazi concentration camp. The book discloses the harm, annihilation, starvation and hopelessness that Levi witnessed and experienced. What impressed me most is the calmness of Levi's writing style, which is even more striking, given the horrific nature of the events he describes throughout the book. You can really feel the "weight" of his words. It also reminds readers to live well and live honestly, and to believe in kindness.

- Chan Yuen Lam CPA, Assistant Manager at KPMG



I recommend *The Gray Rhino: How to Recognize and Act on the Obvious Dangers We Ignore*, by Michele Wucker. A gray rhino, as Wucker explains, is a highly probable, high impact yet neglected threat. The book lists out examples in different aspects, including climate change, cybersecurity, debt, water scarcity, economic inequality etc. to explain the psychological tendencies and social influences that often cause us to ignore and deny these obvious threats in favour of short-term gains or savings. The book leads readers to rethink and acknowledge some existing threats and their own biases, and to work to overcome them.

- Margaret Hui CPA, Senior Manager at ICBC (Asia)



Greenlights is an extraordinary memoir from the Academy Award winning actor, Matthew McConaughey, which depicts his life story and how he turns some of his "red" lights in life into "green" lights. Both in traffic and in life, green lights let us know whether or not to go ahead on our path. We also inevitably come across red or yellow lights, both of which can stop us from progressing. However, it all depends on how you see these challenges and how you cope with them. During this difficult time, this is just the right book to read.

- Derek Lo CPA, Senior Consultant, Deloitte China

Everyone's a number cruncher

Hong Kong's humorist on why it ought to be a requirement for every person – and not just accountants – to be mathematically literate



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*

T rue story. Some years ago, I bought HK\$20 worth of bananas (ten at HK\$2 each) at a fruit shop in Caine Road. The young saleswoman got out her calculator to work out what the total was. And got it wrong.

Since then, we have reached the present situation where pretty much everyone on earth thinks they are Euclid reincarnated – sifting through coronavirus statistics by themselves and gleefully sharing their findings to thousands on social media.

Accountants, business writers and other people who are actually numerate are, surely, watching with horror.

Example: One social media “friend” (who may actually be the banana shop girl) posted on her social media feed that 99.97 percent of people recover from COVID-19, so pretty much nobody dies. In fact, the case fatality rate in Hong Kong as of this month is 1.8 percent, and a quick bit of maths shows that if this city's 7.55 million population get the disease, 135,900 people would die, which is not “nobody.”

Many people with poor mathematical thinking skills work for the media, so misconceptions multiply. *The New York Times* pushed a dramatic headline last year: “*Total number of confirmed deaths in U.S. surpasses Italy.*” But the United States has more than five times the population of Italy, so of course the number is higher. If it wasn't, that would be news.

Journalists not only get numbers wrong, but foul up the facts. We also don't understand people. In December 2020, the *South China Morning Post* reported that the government would not have to force people to take vaccines. “*If the vaccines are good, people who long to travel and resume business will of course be happy to take them,*” it wrote. Fast forward to the middle of this month, when only 23.5 percent of Hong Kong people have taken any vaccines, and the government has to find other ways to encourage more to follow suit, on top of the 300 taels of pure gold, diamond-studded

Rolex, Tesla Model 3 car, HK\$10.8 million apartment and other cash incentives already offered by the private sector.

(Americans are boasting that 53 percent have taken the vaccine, forgetting that surveys last year indicated that 72 percent would take it.)

This may be an impractical idea, but I think a law should be passed stating that statistics about COVID-19 can only be distributed by careful, highly numerate people – like accountants, chief financial officers, maths teachers, and domestic helpers shopping on behalf of their employers. After all, if the Academy Awards have accountants from the Big Four in charge of the ballot counting process, surely a global pandemic deserves the same high standards of numeracy?

Although, life being as unpredictable as it is, one must admit that sometimes even the best number crunchers get it wrong. The legendary physicist Enrico Fermi once wrote a complex equation on the blackboard and stood in front of it to be photographed. The sum was wrong. But that was the picture that was turned into a postage stamp to celebrate his life, both in the U.S. and in Italy.

Still, taking mathematics seriously is particularly vital for a business hub like Hong Kong. Successful business ventures are largely maths plus psychology, after all. So, for example, no one would pay HK\$600 for a jar of coffee powder. But put the coffee in a box of capsules and call it “Nespresso,” and your billion dollar profit awaits.

Yet, sad it is to admit this, numerate old fogies like the present writer are not in charge of the dominant media these days. Excitable younger folk are.

And the challenge will get harder. *Education Week* in the U.S. just published a report about falling math levels, headlined: “*Kids are behind in maths because of COVID-19.*”

The banana girl problem could be just beginning. Panic now.





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