A+

Driving business success

Issue 11 / Volume 14 / November 2018

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"Available now, Institute's annual report – which this year is presented in a new digital format. I urge you to go read the report to get an understanding of the Institute's activities over the financial year."

Dear members,

The Institute's new website launched this month – have you seen it? The team put in a lot of effort migrating content over, and improving the look and navigation of the website and I wanted to offer my thanks to them. The feedback so far has been positive and now they have turned their attention to developing improvements, including reviewing the Members' Handbook and integrating the CPD event calendar with the website. I look forward to seeing these future changes. There is a short survey available for you to offer your feedback on the new site and suggest future improvements for the team to investigate.

Also available now is the Institute's annual report – which this year is also presented in a new digital format. I urge you to go read the report to get an understanding of the Institute's activities over the financial year.

It is also time for the Institute's annual career survey of members and students. Make your views known about career employment prospects, new technologies and earning power. Your responses help the Institute to identify opportunities to better serve your needs.

Another regular event held this month was the Business Case Competition, featuring 12 teams of talented tertiary education students. This year, the previously separate competitions were combined and Hong Kong students competed together with Mainland China and Macau students. The presentations were well-prepared and the students delivered them very professionally. Congratulations to the winning team from The University of Hong Kong who demonstrated they were true Accountants Plus in their analysis and recommendations.

On 14 November, at the career conference for young members I got to see some of the current generation of new Accountants Plus. The event highlighted the opportunities to work with new technologies and how they should seek to develop their skills to rise to the challenges. I spoke to the young members about how in the age of Accounting Plus, new technologies are driving businesses to evolve and offered advice for young members regarding the types of skills they should look at developing including strong analytical skills, strategic thinking, creativity, and a willingness to embrace change.

I represented the Institute at the World Congress of Accountants in Sydney at the beginning of the month. Held every four years, the three-day congress attracted 6,700 delegates from all over the world, with topics covered including the impact of technology on the profession, how future accountants will work, and the importance of ethics in our work. I met with many leaders in the field and shared views on the professions' collective future. The conference provided much food for thought for setting the future direction of the Institute. You can read more about the conference in the article *At the crossroads of technology and integrity* on page 26.

At the annual Cross-straits, Hong Kong and Macau Accounting Profession Conference, held in the middle of the month, representatives from across Greater China came together to discuss issues relevant to the profession. A topic of interest for all was the new anti-money laundering regimes across the region and participants shared their experiences and views. At the conference, I was pleased to see so many leading voices from Hong Kong speaking on topics ranging from standard-setting for audit, the Greater Bay Area, and the use of data analysis in auditing.

Congratulations to all seven Institute teams (including Vice-President Patrick Law) who completed the Hong Kong Trailwalker 2018 this month. Being an accountant requires hard work and dedication and the teams truly demonstrated their resilience against torrential rain, blisters and fatigue. Well done to those special Accountants Plus.

It's not long to go now until the annual dinner, one of the highlights of the year for the Institute. I hope to see some of you there, where we will be celebrating the theme "Accounting Plus" and the achievements (and other talents) of our members – plus hearing from Guest of Honour Matthew Cheung, Chief Secretary for Administration.

Eric Tong
President

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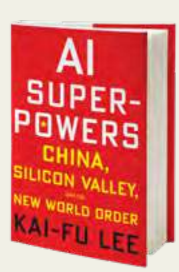

Driving business success

About our name
A Plus stands for excellence, a reference to our top-notch accountant members who are success ingredients in business and in society. It is also the quality that we strive for in this magazine — going an extra mile to reach beyond Grade A.

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November 2018. Print run: 7,230 copies
The digital version is distributed to all 43,117 members, 17,658 students of the Institute and 2,358 business stakeholders every month.

Institute news

First digital annual report launched

The Institute released its annual report 2018 this month, including the first mobile-friendly digital version.

The theme of this year's report is the future of the profession and Accounting Plus, a concept that reflects the varied career options open to Institute members, how CPAs embrace innovation and are able to take on challenges and opportunities of the future. It features photos of members in areas beyond traditional accounting.

The digital version features a video of President Eric Tong talking about the highlights of the past year for the Institute, and Accounting Plus.

Visit *annualreport.hkicpa.org.hk* to experience the new report and find the pdf version.

Council election

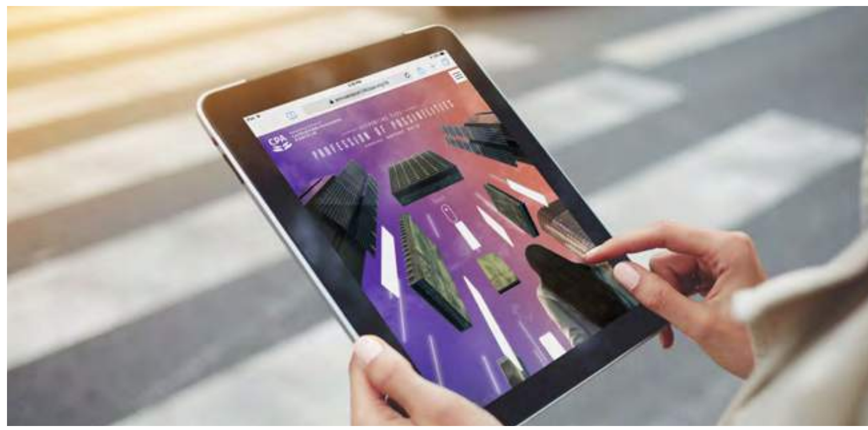
Exercise your right to select seven candidates to join the Council and cast your votes either by ballot paper or by e-voting, but not both, by 5:30 p.m. on 10 December.

AGM

The 46th annual general meeting will be held on 13 December at the Institute's office. After the AGM, the new president and vice-presidents will be elected.

New website launched

The Institute's new website launched this month with a responsive, modern design to improve the user experience of navigation.



CPAs for CPAs Mentorship Programme 2019-20

The 2019-20 Mentorship Programme is now open for application. Members with less than seven years post-qualification experience (PQE) are eligible to apply as a mentee. Members with PQE of seven years or more – and who are enthusiastic about nurturing young professionals – are encouraged to join as mentors. Interested members should register online by 31 December. Visit *www.hkicpa.org.hk/mentorship* for details.

Career Survey 2019

The Institute is conducting its annual Career Survey with the aim of better serving members' needs, the survey covers employment prospects, new technologies and earning power. Those who complete the survey can enter to win one of 15 prizes, including an Apple Watch. The survey closes on 22 December.

Position paper on Changes to Practical Experience Framework

The Institute issued the Position Paper on Changes to Practical Experience Framework. The revised framework enhances the flexibility of the practical experience requirements, strengthens the quality assurance of the Authorized Employer and Authorized Supervisor system, and promotes communication through an online system.

New report on key audit matters released

The Institute has released its second-year report into the communication of key audit matters and the effects it has had on users of financial reports, to determine how the profession could better respond to stakeholders' needs.

Resolution by Agreement

Law Ka Lok, CPA (practising) and Latitude CPA Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.*

Latitude CPA Limited audited the financial statements of two private companies. Law is the managing director of Latitude and was the engagement director of the relevant audits.

In response to the Institute's enquiries, Latitude claimed that there had been unauthorized deletion and consequent permanent loss of the audit documentation which was kept in electronic form in the practice's computer server. The Institute's review of Latitude's policies and procedures revealed that it had failed to design and implement proper control policies to ensure the integrity and retention of audit documentation.

Regulatory action: In lieu of further proceedings, the Council concluded the following action should resolve the complaint:
1. The respondents acknowledge the facts of the case and their non-compliance with the relevant professional standard;
2. They be reprimanded; and
3. They jointly pay an administrative penalty of HK$40,000 and costs of HK$10,000.

Lee Po Chi, CPA (practising) and Deloitte Touche Tohmatsu

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 500 *Audit Evidence*.

Deloitte audited the consolidated financial statements of Culturecom Holdings Limited, a Hong Kong listed company, and its subsidiaries (collectively, group) for each of the years ended 31 March 2013 to 2016 and expressed unmodified auditor's opinions. Lee was the engagement partner in those audits.

The financial statements for 2014 and 2015 included an impairment loss of HK$29.6 million on the group's investment in a listed company. This loss was inappropriately recorded, as the market value of the investee's shares was greater than their carrying amount in the two years. As a result, the group's net assets were understated in those financial statements. In the group's 2016 audited financial statements, the impairment loss was retrospectively reversed.

Regulatory action: In lieu of further proceedings, the Council concluded the following action should resolve the complaint:
1. The respondents acknowledge the facts of the case and their non-compliance with the relevant professional standard;
2. They be reprimanded; and
3. Each of the respondents pay an administrative penalty of HK$50,000 and they jointly pay costs of HK$10,000.

Disciplinary findings

Chin Oi Lin, Irene, CPA (practising)

Complaint: Failure to respond to the requests of the Institute's Quality Assurance Department (QAD) which amounts to professional misconduct.

Chin was a practising CPA since January 2006, running a part-time practice. In January 2015, Chin's practice was selected for a practice review. However, the review could not be carried out because Chin refused or neglected to cooperate with the QAD by providing the information necessary for conducting a practice review.

Chin failed to respond to QAD's repeated requests to submit information required in relation to the practice review, including a direction issued by the Institute's Practice Review Committee. Chin also did not respond to the Institute's correspondence sent to her registered office, the maintenance of which was required by section 31(1) of Professional Accountants Ordinance (Cap. 50) (PAO).

The Disciplinary Committee agreed that Chin's behaviour demonstrated wilful disregard of the Institute's attempts to establish communication with her, which violates the spirit of section 31(1) of the PAO. Further, as a practising CPA, Chin should know the statutory function of a practice review is to uphold the quality of the profession. Her continuous neglect to respond to QAD's requests not only caused significant delays to the practice review process, but also demonstrated a blatant disregard for the direction and repeated requests for cooperation from the Institute, which amounts to professional misconduct under the PAO.

Decisions and reasons: Chin was reprimanded. The practising certificate issued to Chin in 2018 is to be cancelled, and her name be removed from the register of CPAs for three years. In addition, Chin was ordered to pay a penalty of HK$30,000 and costs of the disciplinary proceedings of HK$60,943. When making its decision, the committee considered the particulars in support of the complaint, including Chin's unprofessional behaviour.

Leung Kin Sun, Sunny, CPA (practising) and Sunny Leung & Company

Complaint: Failure or neglect to observe, maintain or otherwise apply HKSA 260, HKSA 320, HKSA 500, HKSA 550, HKSA 580 and the fundamental principle of *Professional Competence and Due Care* in sections 100.4(c) and 130 of the Code of Ethics for Professional Accountants.

Leung is the sole proprietor of Sunny Leung & Company which expressed an unmodified auditor's opinion on the financial statements of Ting Wai Monastery Limited, an approved charitable institution, for the year ended 31 March 2009. The audit procedures contained deficiencies relating to audit materiality, related party transactions, bank confirmations and certain income and expenditure items. The respondents also failed to adequately document communication with those charged with governance on some audit issues.

Decisions and reasons: The respondents were reprimanded. They were also ordered to jointly pay a penalty of HK$80,000 and costs of disciplinary proceedings of HK$60,956. When making its decision, the Disciplinary Committee considered the deficiencies identified, the seriousness of the case, the respondents' conduct throughout the proceedings, and the parties' submissions.

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

IIRC aligns standards for clearer sustainability reporting

The International Integrated Reporting Council (IIRC) plans to combine existing reporting frameworks to help the corporate sector report non-financial information such as environmental impact. The two-year project will be funded by New York City Mayor Michael Bloomberg's charity Bloomberg Philanthropies. Corporate Reporting Dialogue (CRD) Chair Ian Mackintosh said: "There is a renewed urgency to drive better alignment that can combat reporting fatigue, reduce burden and enable more effective corporate reporting," adding that the different elements of the corporate reporting system are not working as harmoniously as possible. The CRD was originally initiated by IIRC in 2014 as a response to market demands for better coherence and comparability between the corporate reporting standards and frameworks. Members of the CRD, such as the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI) and Carbon Disclosure Project (CDP), will be mapping out their own sustainability standards and identifying common traits and differences. They will also identify how non-financial metrics relate to financial outcomes, and how it can be integrated into mainstream reports. The IIRC expects to have the initial recommendations on how the existing frameworks can be aligned in the third quarter of 2019.

Illustration by Harry Harrison

Deferral of IFRS/HKFRS 17

On 14 November, the International Accounting Standards Board (IASB) tentatively proposed to defer the effective date for IFRS 17 *Insurance Contracts* by one year, and extend the temporary exemption for insurers to apply IFRS 9 *Financial Instruments* to 2022. Following the Hong Kong Institute of CPA's standard-setting due process, a Hong Kong public consultation on the IASB proposals will commence as soon as the IASB exposes its proposals for comment. The Institute strongly encourages Hong Kong insurers to respond to the Institute's and/or the IASB's consultation documents. The Institute may consider roundtable forums for stakeholders to voice their views. The Institute will deliberate whether to defer the effective date of Hong Kong's equivalent insurance standard, HKFRS 17, once it hears the feedback of Hong Kong stakeholders including insurers and investors, and once the IASB makes its final decisions. The Institute will continue with its education efforts on IFRS/HKFRS 17, and remains committed to continue assessing of implementation developments in Hong Kong, facilitating discussions with the industry, and working together with the industry and the IASB to resolve those challenges.

KPMG suspended in Oman

KPMG Oman has been suspended from auditing listed entities after accounting irregularities were found. The ban, effective for one year, also extends to performing audits on securities firms, insurers and companies regulated by the Capital Market Authority (CMA). The Sultanate of Oman said that action would be taken to protect investors and stakeholders. In a review, the CMA said auditors had "established professional negligence on the path of some audit firms that warranted disciplinary measures against them in the interests of the investors and other stakeholders." The firm told *Arabian Business* it is "cooperating with the CMA to resolve these matters."

Former Malaysian prime minister accused of tampering with audit

Najib Abdul Razak, Malaysia's former prime minister, has been accused of tampering with the National Audit Department's audit report on 1Malaysia Development Berhad (1MDB), a government-run strategic development company. The discovery sheds light on Najib, who in 2015 was accused of channelling over RM 2.67 billion (US$638 million) from 1MDB. According to media reports, orders were made by Najib to remove the mention of businessman Low Taek Jho's name from the final audit during preparation. Low is the beneficiary of numerous discretionary trust assets said by the United States government to originate from payments out of the Malaysian 1MDB fund. Auditor-general Madinah Mohamad, who briefed the Malaysian cabinet on 23 November, says Low's name was removed to prevent the opposition from using it against the government. Najib, who had a professional relationship with Low, also purportedly ordered that paragraphs containing two versions of 1MDB's 2014 financial statements be removed from the document. Najib has denied all charges so far.

Deloitte proposes cap on market share

Deloitte's British unit proposed a market share cap in the United Kingdom's audit market in its evidence submission to the Competition and Markets Authority's (CMA) review. The firm says capping the number of clients a firm can audit, especially FTSE 350 clients, would address choice and competition issues, reduce entry barriers for firms beyond the Big Four and reinstate public trust of the audit market. Their announcement came a day after KPMG said it would no longer perform consultancy work for companies if it is also auditing them to "remove the perception of a possible conflict" of interest, according to *BBC News*.

A world of numbers

US$30.8 billion

The gross value of merchandise sold on Alibaba in 24 hours on 11 November or Singles' Day in China. This tops the record set in 2017, when the company sold US$25.3 billion worth of products on its e-commerce sites such as Taobao and Tmall.

6%

The percentage of chief financial officers in the United Kingdom who plan on hiring new employees this year, according to Deloitte's European CFO survey. It noted that U.K. CFOs are the least optimistic about their businesses' financial prospects, with only 24 percent of those surveyed deeming the next few months a good time to invest.

26%

The maximum percentage electric car manufacturer Tesla will be slashing off the prices of its Model X and Model S cars in Mainland China as announced on 22 November. With discounts up to 26 percent, Chief Executive Officer Elon Musk says the move will make both models more affordable in light of U.S.-China trade war tariffs.

Stephen Haddrill

Carlos Ghosn

❶ Stephen Haddrill to leave U.K. FRC next year

Chief Executive of the United Kingdom's Financial Reporting Council (FRC) Stephen Haddrill plans to step down from his post. Haddrill, who has been with the FRC for close to a decade, said he will leave the council in late 2019. His announcement comes amid mounting criticism faced by the audit watchdog for the spate of corporate collapses during its watch, such as construction group Carillion and British department store BHS. His exit date will depend on a review led by Chairman of Legal and General plc Sir John Kingman, which will examine the effectiveness of the FRC as a regulator. Haddrill said, "I am incredibly proud to have led the FRC for nearly nine years. I remain fully committed to taking forward the FRC's important programmes on audit reform, investor stewardship, corporate reporting and preparing the FRC for [the U.K.'s] EU exit."

❷ Samsung faces accounting concerns

Samsung BioLogics, parent company of biopharmaceutical company Samsung Bioepis, has been fined US$7 million by South Korea's financial regulatory body. The Securities and Futures Commission alleged that the company used fraudulent accounting methods in 2015 to inflate the value of Bioepis ahead of its initial public offering in 2016, which eventually raised US$2 billion. Trading has since been suspended, and the commission has recommended that the company should be delisted from the Korean stock exchange. In a letter to shareholders, the company apologized but denied any wrongdoing, claiming that their accounting practices were acceptable, having sought advice from multiple accounting firms. They now plan to file a lawsuit to "clearly prove the legality of Samsung BioLogics' actions."

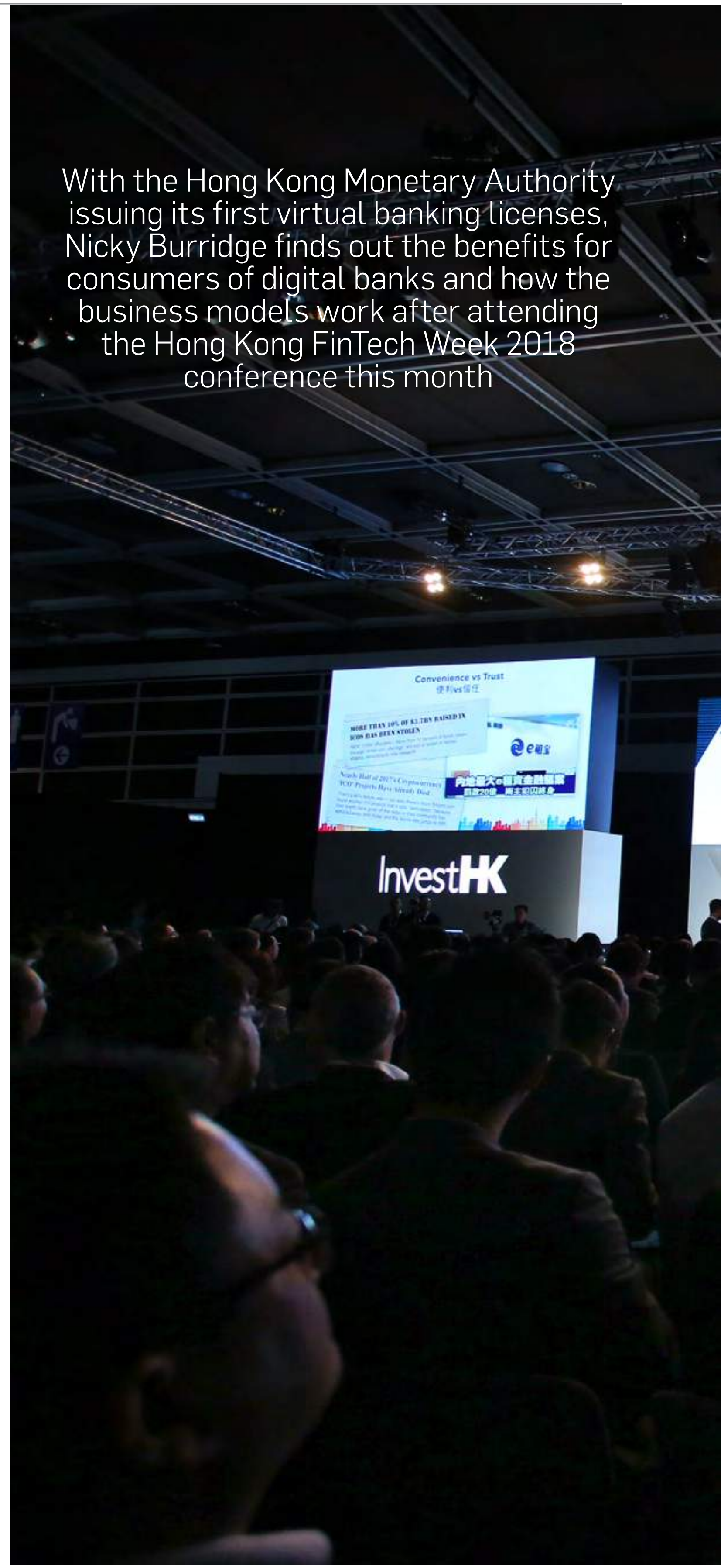
❸ U.S. government investigates Snap's IPO

Snap Inc., Snapchat's parent company, is being investigated for allegedly manipulating its US$3.4 billion initial public offering. The company announced on 14 November it had received a subpoena from the United States Department of Justice and the Securities and Exchange Commission requesting information relating to its IPO in March 2017. The class action suit accuses the company of making "materially false and misleading statements" and for dismissing an employee who questioned their metrics after three weeks on the job. Snap denies the claims in a statement, saying: "We continue to believe the class action's claims are meritless and our IPO disclosures were accurate and complete. We intend to continue to cooperate with these regulators on their subpoenas and requests for information."

❹ Nissan chairman arrested for tax evasion

Carlos Ghosn, the 64-year-old chairman of Japanese multinational automobile manufacturer Nissan, was arrested on 19 November on charges of falsely reporting his earnings. He was dismissed from the company four days after his arrest. Prosecutors are accusing Ghosn of under-reporting the 5 billion yen (HK$343 million) he earned at Nissan over five years from 2010. He is also accused of using 2.6 billion yen in company money to buy several homes and is suspected of shifting some 1.7 billion yen (HK$117 million) of losses from personal investments to the automaker in 2008. Both Ghosn and Greg Kelly, the Nissan executive accused of consipiring with him, deny the claims.

With the Hong Kong Monetary Authority issuing its first virtual banking licenses, Nicky Burridge finds out the benefits for consumers of digital banks and how the business models work after attending the Hong Kong FinTech Week 2018 conference this month



Imagine a bank that let you open an account in three minutes without setting foot in a branch, offered commission-free foreign currency exchange and kept track of spending for you.

It may sound unlikely, but virtual banks, such as Revolut, are doing just that.

Revolut does not have any branches. Instead, people can open an account through their mobile phone by sending a photograph of their identity document, filling in some personal details such as their address and nationality, and taking a selfie. The whole process takes a matter of minutes.

Revolut also offers real-time person-to-person money transfers and the ability to buy and store cryptocurrencies. Launched in the United Kingdom three years ago, Revolut now has 60,000 business customers and three million retail ones in 31 European countries, opening an average of 8,000 new accounts every day. It has raised US$340 million from investors and has a US$2 billion valuation.

Virtual banks, also known as digital banks or challenger banks, are a new breed of banks that do not have a physical branch network.

They will soon be coming to Hong Kong, with the Hong Kong Monetary Authority currently reviewing applications from 29 providers for virtual banking licences. “We think the next 12 to 24 months are going to be very exciting in Hong Kong,” says James Lloyd, Asia-Pacific FinTech Leader and Partner at EY.

Revolut also has plans to launch in a number of Asian countries, including Hong Kong, in the coming months.

The topic of virtual banks was discussed at the Hong Kong FinTech Week conference, which took place from 30 October to 2 November in Hong Kong and Shenzhen. The five-day event featured important announcements, presentations and panel sessions covering all key aspects of financial technology (FinTech), and involved experts from around the globe and some of the world’s biggest FinTech companies.

A new type of bank

Virtual banks have the potential to significantly disrupt traditional banking models, offer a better deal to consumers and improve financial inclusion.

Michael Gorriz, Group Chief Information Officer at Standard Chartered Bank, whose company has applied for a virtual banking licence in Hong Kong, explains that a virtual bank does more than offer its services through digital channels, such as a mobile phone or the Internet. Rather, it is a bank that is designed without bricks and mortar in the first place.

It focuses on the digital banking experience and provides the real-time service that people in the digital age expect. “This is not done just by putting a new digital face on your bank, you have to redesign banking from the ground up,” he says.

Lloyd points out that in Asia, digital banks are looking for new ways to service customers, such as taking messaging services and building a bank on top of them, as is the case with WeBank, China’s first online bank, which is offered through WeChat and QQ.

WELCOME TO **VIRTUAL** BANKING

Virtual banks target two key customer segments. The first is consumers in rapidly developing countries, where the physical bank infrastructure has not kept pace with the growth in the middle class.

The second segment is millennials and digital natives in places like Hong Kong, who want a 24/7 service that they can access wherever they are. "They want a service that is ready for them when they want to do the banking and not the other way around," says Gorriz.

In order to attract customers, virtual banks recognize that they need to offer them a better deal than their traditional counterparts. Revolut offers free worldwide travel insurance, and free instant international money transfers in 24 different currencies, while it is in the process of launching free stock trading. Foreign currency exchange is not only commission-free, but done at the interbank exchange rate.

Chad West, Chief Marketing Officer at Revolut, says: "People want clear added value, but banks have stung consumers in fees for years."

Revolut also offers a number of innovative features, including budgeting tools, pay-as-you-go insurance, and state-of-the-art fraud detection systems. WeBank has similarly innovative features, and alongside other products, it offers microloans starting at RMB500 with interest rates charged of between 0.02 percent and 0.05 percent per day. The money can be repaid at any time.

Innovative business models

Virtual banks are able to offer these deals to their consumers because of their very different business models. Unlike traditional banks, they do not have the overheads associated with operating a branch network. They also typically use cutting-edge technology to automate processes that are carried out manually in other banks, enabling them to have a significantly lower headcount.

"We use a lot of open-source technology, which means our IT operating costs are only one tenth of what incumbent banks are paying."

Henry Ma, Chief Information Officer at WeBank, explains that it uses artificial intelligence and chatbot technology to automate its customer services. "We use a lot of open-source technology, which means our IT operating costs are only one tenth of what incumbent banks are paying," he explains.

"We use big data to drive a lot of the back-office processes, like risk management. This creates a vastly different cost structure to support the business model that we want to promote."

Gorriz says in India, Standard Chartered has reduced the time it takes to sign up a new customer from seven days to just 15 minutes, using India's open-source biometric national identity scheme. This has also reduced its costs of signing on new customers by 90 percent.

In addition to lower costs, some virtual banks also operate on a marketplace model, under which they cross-sell other financial products, such as insurance, to their customers, generating commission.

Another potential source of revenue is offering software-as-a-service to traditional banks, with some virtual banks "white labelling" the technology they developed, such as their anti-money laundering and anti-fraud systems.

But not all virtual banks have a full banking licence, with some, such as Revolut, operating as stored value facilities in the markets in which they operate instead, reducing compliance costs and restrictions. West says: "We can do 80 percent of what a bank can do, but we can build products without being held back by local regulation."

Having the ability to scale quickly and expand into new markets and products is also key.

Regulating cryptocurrency exchanges

The Securities and Futures Commission (SFC) has announced moves to bring crypto funds and exchanges under its regulation in a bid to enhance consumer protection.

Speaking at Hong Kong FinTech Week this month, Ashley Alder, Chief Executive Officer of the SFC, said Hong Kong had a sizeable population of investors who were interested in trading virtual assets, while there was also growing demand for funds that invested in them.

He said the SFC would be introducing new requirements for fund managers that it already supervised who intended to invest more than 10 percent of a mixed portfolio in virtual assets.

He added that for the time being, only professional investors would be allowed to participate in these funds.

Alder said that while the SFC's reach did not extend to the managers of pure crypto funds, companies that distributed these funds would have to be registered with it or licensed by it as brokers, and they would have to comply with its distribution requirements.

"The combined effect of these measures is that the management or distribution of crypto funds will be regulated in one way or another, so that investor interests will be protected either at the fund management level, at the distribution level, or both," he said.

The SFC is also exploring the potential regulation and licensing of crypto exchanges. Interested operators will be able to opt in to trying the conceptual framework within a sandbox environment to enable the SFC to assess if it would be appropriate for it to regulate them. "If, and only if, we decide at the sandbox stage that we should regulate, we would consider granting a licence," said Alder.

He added that the exchange would then be subject to intensive reporting and monitoring to ensure it had strict internal controls and that investors' interests were protected.

Chad West is Chief Marketing Officer of Revolut

Ashley Alder is Chief Executive Officer of the Securities and Futures Commission

"You need to be able to easily scale up at a low cost. In less than four years, we were able to build a customer base of more than 80 million, and have launched more than 30 products," says Ma.

He adds that virtual banks must also be agile to respond to developing market needs. "Our record from ideation to production took just 11 days." Gorriz agrees: "In process design it is of upmost importance that we are fast. Speed is everything," adding that Standard Chartered rolled out a virtual bank in four countries in Africa in just one quarter.

Even so, these business models are unlikely to be foolproof. "There are a lot of challenger banks now, but I think only a few key players will make it," says West. "They will make it through speed and scale."

Boosting financial inclusion

The development of virtual banks has significant implications for financial inclusion. TNG, which stands for The Next Generation and operates as TNG Wallet in Hong Kong, is specifically targeting this market.

Alex Kong, Founder and Chief Executive Officer of TNG, points out that nearly half of the world's population does not have a bank account, including an estimated 1.2 billion people in Asia. "For users, our mobile app is like a mini bank in their hands," he says.

The group does not have any branches, but customers can add cash to their accounts or withdraw money through Circle K and 7-Eleven stores using a QR code. The wallet can also be used to send money overseas, with recipients receiving an SMS with a payout code. They can then go to one of TNG's partners, present their identification card and payout code and get the money.

"Our network covers more than 400 banks and more than 150,000 non-bank outlets where the unbanked can receive money instantly," Kong says.

Internet giant Tencent has launched a similar service for domestic helpers working in Hong Kong called We Remit. The real-time remittance service operates through social networking site WeChat. It is free to use, and enables domestic workers to send money to their families any time, through their mobile phones.

"They can use that money to make domestic and international bank transfers to pay suppliers and employee salaries at the best exchange rate in the market."

Ride-hailing service Grab launched a financial services arm earlier this year to help boost financial inclusion in Southeast Asia. The group uses its drivers, which represent the largest online-to-offline distribution network in Asia, to facilitate transactions.

Reuben Lai, Senior Managing Director of Grab Financial Group, says: "These guys function as mobile ATMs and branches. They allow consumers to top up their GrabPay wallets and withdraw money from them. In Indonesia, if you take a ride in one of our cars, the driver asks if you want to top up your GrabPay wallet. The driver takes cash and transfers money from their wallet to the consumer's wallet. Drivers like it because it gives them instant liquidity."

He adds that acting as agents for Grab Financial enables drivers to boost their own incomes by 30 percent to 40 percent. Grab Financial also offers microloans to its drivers, using the data and insight it has on them to offer significantly lower rates than they would normally have access to – it also recently set up a partnership with MasterCard to offer virtual and physical prepaid cards to its platform users.

Virtual banking for businesses

Consumers are not the only ones who are set to benefit from virtual banks, with the new model also having implications for small- and medium-sized entities.

Neat, a local start-up, specifically targets entrepreneurs in Hong Kong, aiming to remove the obstacles they face opening a bank account. It enables them to open an account in 10 minutes through their mobile phone, using a digital know-your-customer process, for which it has won Best FinTech (Emerging Solutions/Payment Innovation) Silver Award at the Hong Kong ICT Awards 2017.

Once the account is open, businesses can link it to various payment gateways through which they get paid. David Rosa, Co-founder and Chief Executive Officer of Neat, says: "They can use that money to make domestic and international bank transfers to pay suppliers and employee salaries at the best exchange rate in the market."

Neat also offers physical or virtual business credit cards, which can be managed through its banking app. When employees use one of the cards and takes a photograph of the paper receipt, it is automatically added to the online accounting system, saving companies' time.

While it is still early days in Hong Kong, virtual banks are likely to present a significant challenge to their traditional counterparts. "When we started Revolut, every single person laughed at us. Banks laughed at us, investors laughed at us, friends and family laughed at us," West says. "The idea that a scrappy little start-up could challenge banks with billions of dollars of assets, tens of thousands of employees and tens of millions of customers was laughable. Needless to say, they are not laughing now."

The Hong Kong Monetary Authority recently launched eTradeConnect in September, a new blockchain-based banking trade finance platform, in a move to expand its presence within the city's FinTech sector. The platform combines the services of 12 major domestic and international banks and connects with another blockchain platform to facilitate more efficient trading among a network of 14 European banks.

The International Integrated Reporting Council on why integrated reporting is a highly effective tool for both big and small businesses

Momentum: the next chapter for integrated reporting

In the past, financial balance sheets and profit statements represented over 80 percent of the value of a business. Unsurprisingly, all the attention was on financial capital; where it came from, what happened to that capital through the activities of the business, and what financial outcomes could we focus on.

Today, such a focus on financial capital only explains a fraction of the value of East Asia's top companies – yet our tools of measurement are only now starting to change. We still too often use financially-based tools, decisions and incentives, even when the real drivers of value today are ideas, relationships, brands and natural capital. To shift the focus to the real value drivers of today's world, integrated reporting is one of the most effective tools for any organization, no matter how big or small. The reporting methodology balances a company's performance across financial, social, human, intellectual, manufactured and natural capitals – though fast growing, it's still developing as a nascent discipline.

At the International Integrated Reporting Council (IIRC), our mission is to establish integrated reporting within mainstream business globally.

Entering the momentum phase

In October, we announced the next phase in our strategic journey: the momentum phase. Building on the achievements of the breakthrough phase, this phase of our strategy is designed to create impetus and energy across our target markets and in key sectors to accelerate the adoption of integrated reporting, so that businesses and investors are communicating about value creation.

We will also be focusing on making progress towards greater alignment of the corporate reporting system with a coalition of organizations called the Corporate Reporting Dialogue – reducing reporting burden and misunderstanding between the different frameworks and standards in the markets.

In a "better alignment" project launched this month, we signalled to the market our commitment to alignment and cohesion, giving clarity to organizations worldwide on how to use reporting frameworks and standards effectively, with the ultimate aim being a paradigm shift towards the integration of information in reporting.

Having consulted with the market and with the businesses in our global <IR> Network, we will also focus on advancing the concept of integrated thinking as a driver of effective corporate governance. Making sure principals central to integrated reporting are led by the board, setting a sense of purpose, culture and long-term thinking.

A leading practitioner of integrated reporting is China Light and Power (CLP). CLP's Jeanne Ng, who sits on the IIRC Board, has described the benefits of integrated reporting to them, saying, "there's so much more interaction between different departments now as a result of integrated reporting. We now build better relationships and collaborate. This is one of the big value points of doing integrating reporting."

Recently, the IIRC has formed an Integrated Thinking and Strategy Group – part of our global <IR> Network – which brings together some of the world's most innovative companies so that they can collaborate, learn from each other, challenge each other's thinking, and share leading practices for themselves, and those who follow them. We encourage you to join.

Achieving mainstream adoption

The International Federation of Accountants (IFAC) stated that integrated reporting is "the future of corporate reporting." This statement by IFAC was a major breakthrough in our global message, but integrated reporting is an idea that is still gaining traction. And while progress with individual stock exchanges and regulators, such as in the United Kingdom, Malaysia, India and Brazil, has been impressive, there is still further work to do to gain majority adoption.

The momentum phase will not only drive adoption of integrated reporting to new markets and sectors, it will also seek to mobilize the "investor" pull and make it easier to adopt integrated reporting.

For East Asia, and in particular, Hong Kong, we will be focusing a lot of effort in ensuring environmental, social and governance (ESG) factors become embedded in business and investor decisions. Integrated reporting is about linking ESG information to strategy and the business model – putting it at the heart of the way the organization works.

Also during this phase, we will be promoting integrated reporting as an effective tool for businesses looking to enhance their contribution to the Sustainable Development Goals, while reducing corporate risk and increasing opportunities that arise from sustainable development issues.

The corporate reporting landscape is changing. The way business is being done in 21st century is changing. We are all facing increasing pressures stemming from the likes of incessant short-termism and the need to address climate change. What we are seeking is progress in the way companies think, act and communicate on these issues.

We believe the next chapter will develop integrated reporting into an essential pillar of 21st century corporate governance.

To achieve this strategy, we will need to leverage the support of our partners, who do so much to promote integrated reporting and ensure it is a key aspect of good corporate governance globally. We look forward to working with you.

The International Integrated Reporting Council is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting.

THE BUSINESS OF CLIMATE CHANGE

Mardi McBrien has no illusions about the cost and complexity of creating a sustainable planet. As Managing Director of the Climate Disclosure Standards Board, she explains to George W. Russell how she engages with investors, regulators and accountants to bring about reform of financial reporting to reflect risks to the environment

Photography by Matthew Joseph

In October, when the Intergovernmental Panel on Climate Change (IPCC) issued a worrying report that limiting global warming to 1.5 degrees Celsius would require "rapid, far-reaching and unprecedented changes in all aspects of society," Mardi McBrien was more determined than disheartened.

The IPCC report gave the Australian-born head of the Climate Disclosure Standards Board (CDSB) more ammunition to spread the warning of climate change to global corporations. "The latest facts published by the IPCC are truly worrying," she tells *A Plus*.

For non-governmental organizations (NGOs) involved in environmental awareness and mitigating climate change, the IPCC's conclusions were no surprise, but business has yet to fully embrace its implications. "The report has increased the urgency within the NGO community, but it has not penetrated into the mainstream regulatory, financial or corporate spheres."

McBrien's organization has created the CDSB Climate Change Reporting Framework, a voluntary reporting system designed to publicize climate change-related information of value to investors in standard financial reports. Investors, says CDSB, will be able to make "informed and robust decisions" based on clarity, confidence and trust in climate change-related opportunities and risks disclosed.

"Even though our work is built on mainstream market mechanics and inspired heavily by financial accounting standards," McBrien adds, "it was often dismissed as an ethical issue. Developments such as these are key to mainstreaming climate change as a key business issue."

According to research conducted on 16 United Kingdom companies worth almost £1 trillion by the Climate Disclosure Standards Board in October, only 75 percent of companies include a description of policies related to environmental or climate change matters, while only 63 percent include information on the due diligence processes implemented in relation to those matters

However, McBrien is encouraged by an apparent sea change – and not just rising tides caused by the warming of the oceans – among high-profile names in business and government. One milestone is France's decision in 2017 requiring asset managers and institutional investors, such as insurance companies and pension funds with a balance sheet above €500 million (HK$4.43 billion), to disclose how their business strategies cover climate change.

Another is the establishment in 2015 of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) – chaired by Bank of England Governor Mark Carney – to develop voluntary and consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

"The TCFD has brought a much-needed mainstream perspective to this issue," says McBrien. Michael Bloomberg, Chief Executive Officer of Bloomberg and a former mayor of New York City, is also a leading member. "Having the operator of the information infrastructure, on which much of the market depends, suggests we should be looking at changed perceptions."

Bring on the accountants

Enlisting the accounting profession to her cause is a key objective. "CDSB's efforts have been welcomed and supported by the accounting profession for over 10 years now," McBrien says. "Just as with any other business issue, accounting skills can be used to help organizations adjust, and even thrive, in a changing environment. Climate change-related reporting is nothing new, but it lacks much of the rigour that financial information has."

This is where accountants come in, she points out. "They can adapt their existing skills for collecting and consolidating financial data and apply it to climate change-related information," she explains. "Financial controllers can challenge the reliability of the data as it is collected, and assurers can provide an independent opinion to build trust with the users of the reported information."

"Finding the sceptics' interests and relating how a two-degree temperature change will affect their business interests, hobby or livelihood makes it very real and hard to ignore."

McBrien cites two major reasons why the profession is solidly behind CDSB's work. "Firstly, the financial implications of climate-related matters are becoming clearer and more widely understood," she says. "We are in an age where shareholders want to know how businesses are preparing for the future and securities regulators ask questions if climate change is not discussed when a company experiences weather-related losses to assets."

The second, she adds, is that accountants and auditors have realized that climate-related reporting is one of the new frontiers in the profession. "With the rise of sophisticated software that takes on some of the conventional roles of accountants, climate change-related reporting needs the skills of the profession in order to elevate it to the same standard of financial reporting."

Another advantage of the hard data that accountants can produce and interpret is the improved chances of convincing sceptics. "You can't argue with numbers," says McBrien. "Finding the sceptics' interests and relating how a two-degree temperature change will affect their business interests, hobby or livelihood makes it very real and hard to ignore."

McBrien exemplifies with Larry Fink, Chief Executive Officer of BlackRock, the American multinational investment management corporation, who penned a 2018 letter to fellow CEOs urging them to understand the "ways that broad, structural trends – from slow wage growth to rising automation to climate change – affect your [organizations'] potential for growth."

With such people recognizing that climate could be a risk to business, "being sceptical of these issues is increasingly being seen as a sign of not moving with the times and ignoring credible and potentially serious risks," says McBrien.

An eclectic career

After graduating from the University of Melbourne in Australia with a double degree in forest science and environmental science, McBrien originally pursued a career in international forestry. "In the mid-1990s, a series of events led me to start a career in environmental and climate leadership," she recalls.

One was a trip to the Philippines in 1994 for a young leaders' conference, where she met former president Corazon Aquino, who spoke of the global environmental challenges. "She inspired the teenage attendees with solutions and words of hope and change."

That coincided with a spate of

Mardi McBrien spoke at a session on converging reporting frameworks at World Congress of Accountants 2018

McBrien graduated from the University of Melbourne in Australia with a double degree in forest science and environmental science

fatal bushfires in her homeland. "Seeing houses and lives lost on my doorstep, and the issue of the growing hole in the ozone layer made me realize there were real consequences for our daily Australian lives."

Her eclectic career since has included leading an international students' association, public-private partnership management, stints at environmental group Campaign to Protect Rural England, and managing carbon market policy for the British government's Department of Energy and Climate Change. "Books such as Jeremy Leggett's *The Carbon War: Global Warming and the End of the Oil Era* crystallized the need for me to get involved and strive to make a difference for future generations," she says.

Today, McBrien sees the need for practical answers to the issue. "Although my passion for addressing climate change stems from a deeply personal place, I realized early on that the solution must be very pragmatic," she says. "All of our work is aimed at the market and is designed to be practical. Addressing this issue requires a change in existing practices and it needs significant funds."

"Money doesn't grow on trees," she adds, "but if there is a good business proposition, investors will come. We therefore need to present the solution to climate change as a

"We therefore need to present the solution to climate change as a financial opportunity in the language of investors – and financial reporting is the way to do that."

financial opportunity in the language of investors – and financial reporting is the way to do that."

There is no doubt that climate change is a more pressing issue in boardrooms. A report released in October by the World Economic Forum and Zurich Insurance says that climate change is now the number three concern for businesses in the United States and Canada, coming in behind cyber-attacks and fraud.

Applying technical rigour

McBrien touts increasing success in Asia-Pacific jurisdictions where scepticism about climate change was high until recently. "We have run pilot programmes in South Korea and Japan, working with businesses like Samsung and Mitsubishi to understand how the CDSB framework can be used."

She notes that China has made significant progress in the sustainable finance arena. "They are on their way to implementing requirements akin to the TCFD's recommendations in their market in the next few years. Next year, we focus our attention on Japan as they take over presidency of the G20."

Part of CDSB's appeal, she notes, is its technical rigour. "We keep our stakeholders at the heart of the organization. CDSB's Technical Working Group consists of over 40 report preparers, users, standard setters, academia and others. This group steers our work and is consulted on the work we produce."

The organization also borrows "as much as possible" from financial standard setters. "The CDSB framework, which helps companies integrate climate change and environmental information into their annual reports, has had multiple, extensive consultations to get input and acceptance from all actors."

Several international organizations have thrown their weight behind the CDSB's efforts, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which develops frameworks and guidance on enterprise risk management, internal control and fraud deterrence, and the World Business Council for Sustainable Development (WBCSD). "Codifying climate change into risk management standards and the work done by COSO and the WBCSD is a way to truly embed this issue into the business," says McBrien.

CDSB identifies three priorities for the near future. "We are working tirelessly on supporting businesses and creating the enabling environment for the implementation of the TCFD recommendations. Secondly, we are also working with our financial and sustainability standard-setter counterparts to harmonize the rather confusing landscape of reporting standards under the Corporate Reporting Dialogue." Finally, she says, "I am especially excited about our work to take what we have learned from climate change and expand it to wider environmental reporting."

McBrien acknowledges that there is a long way to go before business uniformly accepts the risk aspects of climate change. "The conversations we have are still disconnected from the facts of the environmental system on which our financial system depends, not to mention its potential impacts on our society," she says. "Our aim is to help businesses communicate these issues to their investors in a factual manner. The market is not a zero-sum game and those who will not act are likely to fall behind."

by Fung Wah Tim

The Standard Chartered Hong Kong Marathon 2019 will take place on 17 February 2019. The Head Coach of Marathon Training Centre Company and Author of *How to Run a Marathon in 90 days* shares some key tips to consider when training for a marathon, especially for first-timers

How to run a marathon

You don't have to be an athlete to run a strong marathon. Anybody can do it. I have coached runners from different walks of life and at different levels in terms of speed, from teenagers to young adults, to retirees and the elderly. Some runners, like myself, have even overcome serious illnesses and continued running. Since recovering from chronic leukemia, I have finished 12 marathons, such as the World Marathon Majors with 10 other runners within 211 days. Here are a few tips on finishing a marathon.

Set targets and research

Setting targets is the key to success. First, pick a marathon and set a target finish time. Decide whether you want to simply finish it or beat a personal record. You should set a time to beat, and start training to meet that target. Secondly, research the route and study its overall gradient and landscape, such as whether there are slopes. You can then draft a plan for the whole race by dividing the course into sections and calculating what your average pace should be. It's also helpful to anticipate the day's weather by checking the forecast the week leading up to the event.

Training

Training will develop your muscle memory and allow your body to adapt to long-distance runs. Begin training three to four months in advance (now if you're planning on running the Hong Kong marathon), and have a weekly training schedule. Endurance is the name of the game, so your schedule should include both short and long distance runs at various paces, repeated runs, and interval runs – which are especially good for increasing speed and stamina.

Food for thought

You should decrease training intensity two weeks before the race day for your body to recover and accumulate potential energy. A week before, do a fast 10-kilometre run in the morning – either before or after breakfast. This will free up room in your body to store glycogen or glucose three days before the race. Your diet should consist of high protein foods and less carbohydrates, such as chicken, beef, pork, mutton, fish, eggs, and some vegetables. The days leading up to the race is when your body starts to store glycogen, which will convert into energy for the race, so it is ideal to consume more carbohydrates such as rice, noodles, pasta, bread, potatoes, fruits and vegetables.

Pace yourself

After training for several months, marathon runners should be able to run at their desired speed in order to achieve their target finish time. Make a mental note of your average pace while training and stick to it. Try to run in a straight line to ensure the shortest possible distance travelled to the finish line, and remember to stay hydrated by drinking water at every refreshment point.

The right gear

A good trick is to wear new socks and run in old shoes. Worn socks may create more friction against your insole, resulting in blisters after the halfway mark. New shoes might also hurt your feet on long runs, so make sure they are worn in before trusting them. To prevent chafing, apply lubricating creams such as Vaseline around areas that are prone to rub against your clothing, such as your inner thighs, chest and underarms. This will prevent general discomfort and possible rashes, which will impede overall performance.

Post-race recovery

You will feel exhausted after the race, so be sure to replenish your body with water or beverages that contain electrolytes. It's good to eat foods such as bananas, cakes or chocolates to restore energy. Make an effort to eat as soon as possible, as your body requires nutrition immediately after the run. Ignoring this rule will extend recovery time. Most important of all, have fun!

"A good trick is to wear new socks and run in old shoes. Worn socks may create more friction against your insole, resulting in blisters after the halfway mark."

Niall Ferguson, Laurence A. Tisch Professor of History at Harvard University, presented a keynote at WCOA 2018 speaking on the topic of "Financial upheavals challenging global economic order"

AT THE CROSSROADS OF TECHNOLOGY AND INTEGRITY

The World Congress of Accountants, the largest worldwide get-together of accounting professionals held every four years, tackled some of the biggest challenges facing the sector as well as charted a more digital future. George W. Russell joined the four-day meeting of thought leaders, industry veterans and future high performers in Sydney

Trust and technology were the two broadest themes of the 20th World Congress of Accountants. The sun-drenched setting – in the harbour-side International Convention Centre in Australia's largest city – reflected the generally optimistic tone of the congress amid rapidly evolving digital landscape and a tightening regulatory environment.

Rachel Grimes, Immediate Past President of the International Federation of Accountants opened the conference, calling on attendees to value integrity and uphold the profession's public interest mandate. "Trust is intangible on the balance books and is our most precious asset," she told the 5,000-plus attendees.

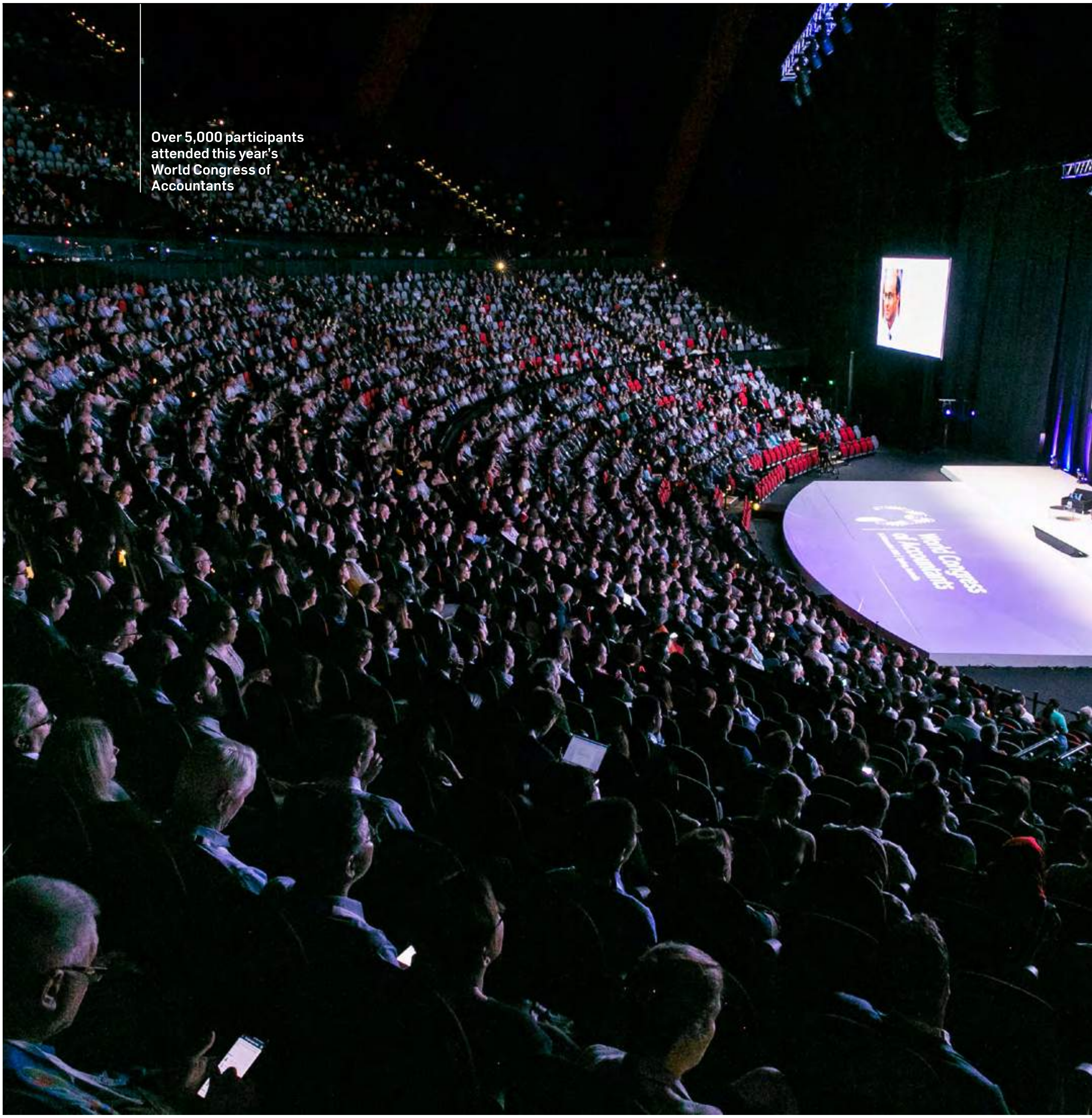
Grimes was the first of more than 150 speakers who offered delegates an array of presentations, master classes, workshops and exhibitions on themes from robotics to valuation.

Since the previous congress, held in Rome in 2014, global markets have been shaken by the uncertainty of Brexit, the rise of cryptocurrencies, and the threat of trade wars under Donald Trump's presidency of the United States. This year's congress theme, "Global Challenges | Global Leaders," emphasized ethics and integrity, disruptive technology and sustainability.

Those questions came together recently in Australia, with the recent report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, which criticized the country's financial institutions and sparked calls for further inquiries into accounting and auditing firms.

Keynote speaker Niall Ferguson, Laurence A. Tisch Professor of History at Harvard University in the U.S. and author of *The Ascent of Money*, raised a few murmurs when he revealed that he had wanted to include an episode about accountants in the television adaptation of his book. "Accountants were the only group for whom the thought of another global financial crisis didn't really bother them," he told the audience.

For the visitors, the congress highlighted more familiar aspects of the host country, with indigenous dancers, Vegemite sandwich spread and a koala making high-profile appearances. Australia's place in the wider Asia-Pacific context was also in the spotlight, with large delegations arriving from China, Japan and Southeast-Asian nations.



Over 5,000 participants attended this year's World Congress of Accountants

Within Beijing's reach

The impact of China – whether through a potential slowdown in its economy, its involvement in global trade tensions, and claims of national security risks from its government-linked companies – was a recurring theme.

Zhang Ke, Chief Partner and Chairman of ShineWing CPA, said China made an impression on each session at the congress. "Every speaker made a reference to China, showing that it is an integral part of the world economy," he said.

But he added that it is important not to overstate China's slowdown this year amid declining outbound foreign investment and volatile stock markets.

"I think there is a lot of misunderstanding about the Chinese economy," he said. "Gross domestic product growth of 6.5 percent is a more normal rate of increase, compared with the sharp growth of earlier years."

He added that domestic curbs on Chinese companies investing overseas are expected to be relaxed soon.

> **"Accountants must make a judgment on whether to disclose [an illegal act] to authorities or withdraw from an engagement [and] disclosure must be balanced between the extent of harm to stakeholders versus legal protections and threats to physical safety."**
>
> - Stavros Thomadakis

> **"Every speaker made a reference to China, showing that it is an integral part of the world economy."**
>
> - Zhang Ke

"Outbound investment has decreased but it is a temporary phenomenon and will pass," Zhang said. "For some companies, investment was just capital transfer through acquisitions that bear no relation to their business."

Zhang said ShineWing, which has an extensive Australian network, is embracing new technology. It recently set up an English-language data centre in India with 24 employees, reflecting the company's commitment to serving its non-China clients.

Meanwhile, Ferguson argued that Beijing was just as significant as Washington in terms of global macro-economic policy. "China did a massive stimulus, mainly for self-interested reasons. They did not want a slowdown in 2009, but that credit splurge led to all kinds of infrastructure investment all over China," he said.

He added that China – not Turkey or Argentina – is the economy to watch in terms of forecasting another crisis. "China is highly leveraged as a result of the policies they pursued during the [global financial] crisis. That will have meaningful repercussions."

Maintaining integrity

One of the conference themes was how to focus on protecting the public interest and building prosperity in a digital world. Accounting, said Michael Izza, Chief Executive of the Institute of Chartered Accountants in England and Wales, was undergoing a transformation due to innovation that enabled the crunching of larger amounts of data.

But he warned that the benefits of technological advancement were tempered by factors such as greater surveillance of employees, an over-reliance on algorithms at the expense of informed judgment, and a potential entrenchment of existing bias due to automated inputs.

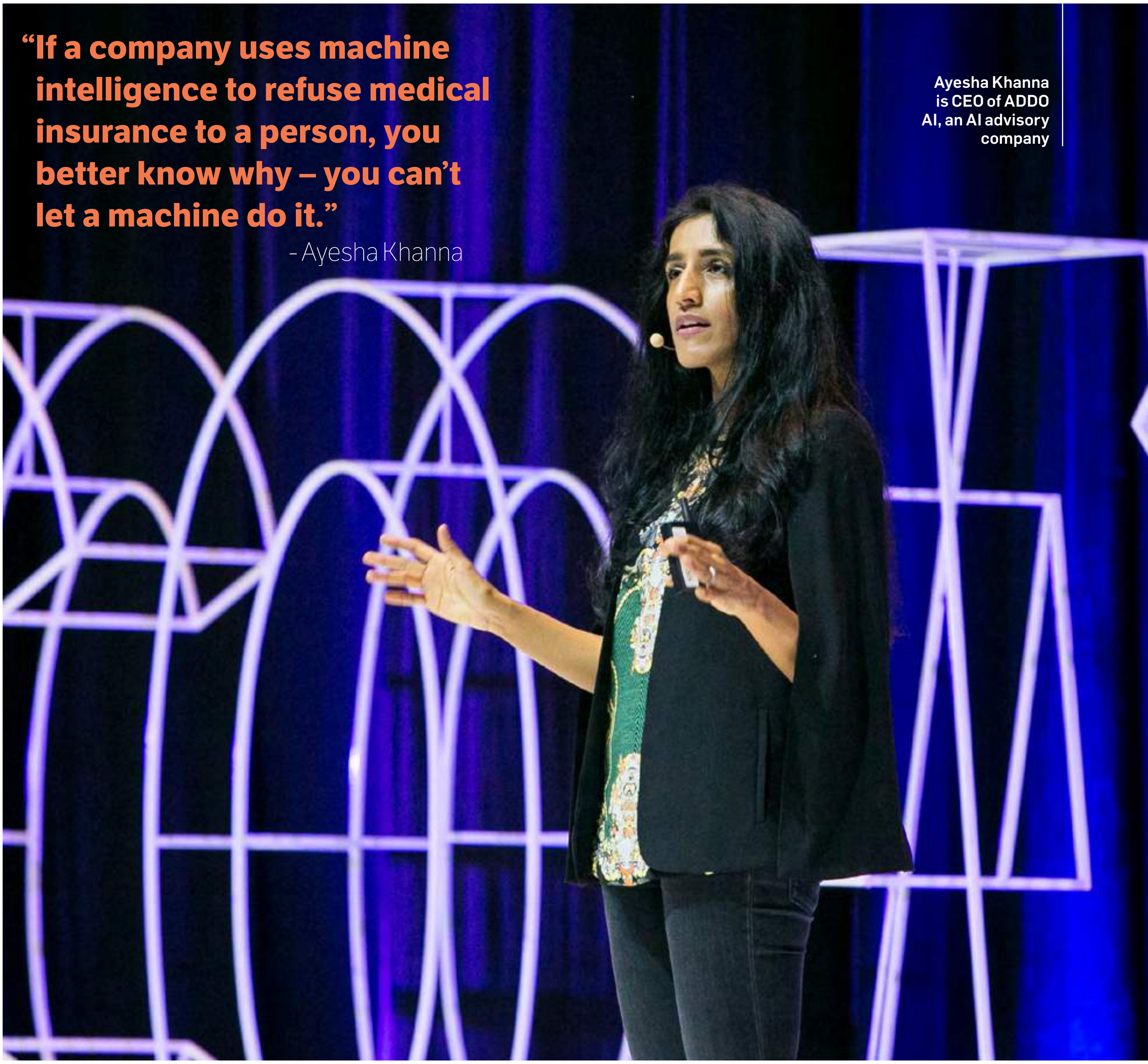
Some speakers acknowledged that the global accounting profession had yet to address many of the ethical implications of new technology. "We are just starting to work on the impact of technology on ethical standards and how it is going to make an impact on professional judgment," said Stavros Thomadakis, Chair of the International Ethics Standards Board for Accountants (IESBA).

Thomadakis hailed IESBA's work on Responding to Non-compliance with Laws and Regulations (NOCLAR), an international ethics standard to guide professional accountants in what actions to take in the public interest when they become aware of a potential illegal act.

"NOCLAR is a breakthrough in terms of public interest," he said. "Its major focus is 'do not turn a blind eye.' Accountants must make a judgment on whether to disclose [an illegal act] to authorities or withdraw from an engagement [and] disclosure must be balanced between the extent of harm to stakeholders versus legal protections and threats to physical safety."

Ming Long, Chair of AMP Capital Funds Management in Sydney and Board Director of Chartered Accountants Australia and New Zealand, said the profession did not live up to its ethical standards in the lead-up to the global financial crisis. "We were meant to be the people who did the right thing."

Ethics has an overarching effect on accountants, Long adds. "It's not just about accountants but all people in business. Serving the public purpose is connected to why we exist as human beings."



Ayesha Khanna is CEO of ADDO AI, an AI advisory company

The conference opened on 8 November, a month after the United Nations Intergovernmental Panel on Climate Change released a landmark report warning that global warming needs to be kept to a maximum of 1.5 degrees Celsius, beyond which magnify the risks of drought, floods, heat and poverty.

With constant reminders to reuse bags and water bottles, the congress emphasized how accountants should contribute to global sustainability. Climate change – as a factor of risk management – was another recurring theme. "I really believe we need to provide leadership," says Gordon Beal, Vice-President of Research, Guidance and Support at CPA Canada.

"It's not about creating climate change experts," Beal added. "It's about how professional accountants apply the skills and competencies they already have in their toolkit in helping their organizations become more adaptable."

He said firms should integrate climate change issues into their overall strategic planning, risk assessment and operations. "It should be a part of how they look at their fundamental business models."

Tech for fun and profit

The profession is counting on technology to provide tools for leadership, said Eric Tong, President of the Hong Kong Institute of CPAs, who represented the Institute at the congress. "Young accountants are very concerned about artificial intelligence (AI) – 'what percentage of jobs will be replaced by computers or robots?' they ask," he said. "I see AI and other technologies as a reason to look at the strategies we need to adopt when members are freed from mundane tasks and can use more judgment."

The tech exhibits included a virtual reality experience that set contestants a task to save a koala manufacturing company from a US$10 million loss. One session revealed that robots can complete certain audit-related tasks in a tenth of the time it takes a human equivalent.

Former secretary-general of the United Nations Ban Ki-moon spoke on global risks and future shocks

"I see AI and other technologies as a reason to look at the strategies we need to adopt when members are freed from mundane tasks and can use more judgment."

- Eric Tong

Melissa-Lee Mitchell, Accountant at New Zealand-based firm Ashton Wheelans, suggested the promise of AI remained more theoretical than practical in the context of the audit profession. "I'm interested from the point of view of using AI to achieve operational excellence in accounting firms."

AI could have particular resonance with Hong Kong's small- and medium-sized practices (SMPs), added Tong. "Large accounting firms will have the resources to invest in new technology but SMPs probably will not. They will need to talk about sharing resources. We haven't talked enough about that recently and we need to address the potential."

Issues of trust resurfaced in discussions about distributed ledger technology, known as blockchain. While often associated with cryptocurrencies such as bitcoin and dubious financial practices such as initial coin offerings, the underlying technology is a game changer.

Brian Forde, Senior Lecturer for Bitcoin and Blockchain at the Massachusetts Institute of Technology Sloan School of Management, describes bitcoin's progress as "going down the peak of inflated expectations into the trough of disillusionment."

But he added: "In a couple of years, everyone will say they would rather go without coffee than without blockchain."

One of the most eagerly anticipated sessions was a presentation by Ayesha Khanna, CEO of ADDO AI, a Singapore-based AI advisory company, and author of *Hybrid Reality: Thriving in the Emerging Human-Technology Civilization*. "How AI can impact business is both impressive and inspiring," said Tang Hongyun, Chief Accountant at the Asia Infrastructure Investment Bank in Shanghai, who attended.

Khanna said accountants should not adopt AI if they do not understand its role. "If a company uses machine intelligence to refuse medical insurance to a person, you better know why – you can't let a machine do it," she tells delegates. "Accountability, governance and transparency are far more important than the products of algorithms."

Tong said that ultimately, technology is now intimately connected with integrity. "With big data, we have to manage digital trust issues. We have to let people know what we are doing with technology, why we are doing it, and communicate how we are using that technology," he said. "It makes you realize that there are a lot of developments in the profession. We are looking back at what we could have done better, and look forward to the future."

Organizers said their aim was that delegates left the conference hopeful they could use the knowledge gained in their careers, said Kellie Hamilton, a member of the congress's executive committee. "It's really about thinking about what they want to be and be able to do to actually be the change and drive the profession forward," she said.

Some delegates took to heart the sentiment in a speech on the final day by former United Nations secretary-general Ban Ki-moon noting that "accounting" and "accountability" were closely related terms. "It is such a simple message but it is at the core of what we do," said Will Camphin, owner of W A Camphin & Co., an accounting firm in North Sydney. "Trust is everything."

The very first World Congress of Accountants was named International Congress of Accountants. It took place more than 100 years ago in 1904 in St. Louis, Mississippi, against the backdrop of the third Modern Olympic Games and the St. Louis World's Fair.

BUILDING THE FUTURE

As one of Mazars' partners under 40, Paul She's career is notable as much for its swift ascent as it is for his deep commitment to building a pipeline of prospective accountants. He tells Liana Cafolla about how he is helping future CPAs be ready for anything

Photography by Calvin Sit

When it was time for Paul She to choose a career, the accounting profession was not seen as a desirable choice. "When I graduated, the economy was adversely affected by 9/11 and the Enron case," recalls She, a Hong Kong Institute of CPAs member. "People were questioning if accounting was a profession worthy of respect." The pay was also not a big draw. "At that time, for some of my friends from university who joined local firms, the average starting monthly salary was only HK$7,000."

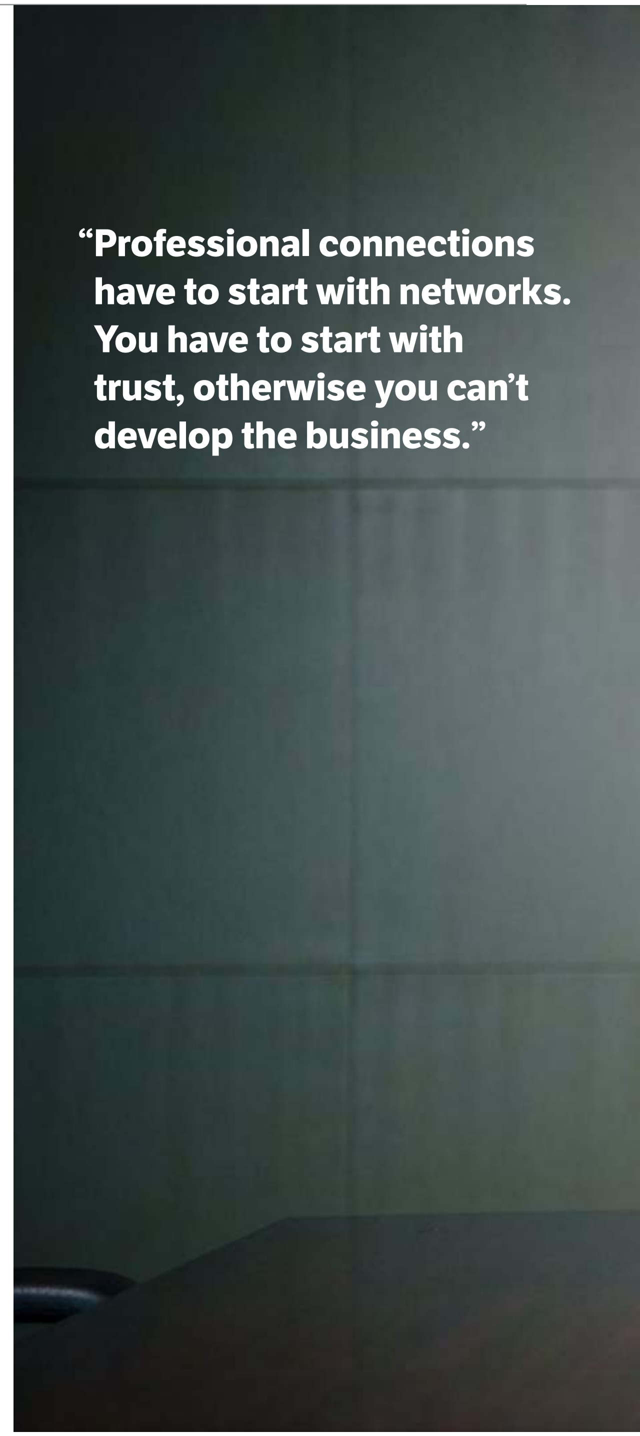
Despite all of this, She, influenced by accountants who visited his secondary school and their professional demeanours, became one of the youngest partners in Mazars at the age of just 31.

Since graduating from Hong Kong Polytechnic University in 2002 as one of the top students with a bachelor's degree in accountancy, She's focus on building a career as an accountant has been unwavering. Immediately after graduating, he joined Moores Rowland, a firm that merged with Mazars. He has stayed with the firm ever since and is now, at 38, Practising Director at Mazars Hong Kong and Partner in Mazars Group. A founding member and former deputy convenor of the Institute's Young Members Group, She is also the Deputy Chairman of the Institute's Qualification and Examinations Board (QEB).

His clarity of focus in his career is rooted in the prodding he received from his parents, he says. Born in Mainland China, the family moved to Hong Kong when She was seven. "My family is quite traditional," he says. "They hoped their child would be a professional. At that time, that meant either a doctor, a lawyer or an accountant. I was good at maths, so I became an accountant."

Global thinking

As Mazars operates as an integrated partnership, sharing profits globally, and under the "par-in-par-out" concept of the partners' equity, he did not have to pay a premium for the capital. "The entire philosophy is that we are building the firm for the next generations," he explains.



"Professional connections have to start with networks. You have to start with trust, otherwise you can't develop the business."

"This is the core value, and why I have stayed with the firm for 16 years, and that's why I think I should do a little bit more for the development of the next generation accountants."

Working in the audit department with a focus on capital markets, most of his clients are listed companies or companies preparing to be listed. She's audit work take up around half of his working hours and is largely a client-facing role that includes signing off on initial public offerings (IPOs) as the reporting accountants.

"Equip yourself, and prepare yourself to be ready for the opportunities around you."

He believes the future for successful firms will lie in identifying and securing new markets, whether geographically or in new economy industries, such as FinTech. In seeking to strengthen Mazars' capital markets business, She has been given a free hand by the firm to carve out a niche focusing on Southeast Asian listings. About three years ago, he began sending the firm's young accountants to work in new markets for the firm and develop connections in Singapore, Thailand and Malaysia with a focus on information technology and FinTech companies. "Professional connections have to start with networks. You have to start with trust, otherwise you can't develop the business," he says. "So far, the success has been pretty good."

Prior to that, Hong Kong's IPO focus was mainly on Mainland China, he says. "Now, it's more international, more global. Singapore, Malaysia, Thailand – a lot of companies in these countries are now coming to Hong Kong for listing, because of Hong Kong's efforts to make its capital markets more global and attract new markets for listing."

Many hats

When he is not working on audit, the remainder of his time is shared between leading a relatively young team inside the firm to develop and train the next generation of Mazars' accountants and build the firm's capital markets business, and his role on the QEB, working mainly on the new Qualification Programme (QP), which entered the implementation phase this year. The first examination session for the Associate Modules, the Professional Modules, and the Capstone will be held in June 2020, December 2020 and June 2021 respectively.

She took the first version of the QP in 2002, taking nine months to complete the course and came out the top student in both the financial reporting module and the final examination. He joined the QEB in 2012/2013 as a representative of young CPAs, where he worked in certain sub-groups which deal with the exam, practical experience as well as ongoing professional development for CPAs by making recommendations to the Institute on both ethical standards, technical skills and enabling competence enhancement. She focuses on ensuring that all aspects of a CPA's skills are upgraded to meet the changing

Paul She works in the audit department, focusing on capital markets.

expectations of employers and stakeholders.

"We believe technical skills are just the entry requirement," he explains. "We need more soft skills, such as leadership, management and business development to develop an all-rounded CPA. We also need client-facing skills as well as learning how to serve the firm's management."

Developing young accountants both within Mazars and the profession's work that is clearly dear to She's heart. "We're trying to raise the entire public view of the profession," he says. "I believe it's very critical. I hope the new QP can develop a professional accountant who is able to think, to judge and also to apply with the highest ethical standards. There are a lot of CPAs, but not many qualified CPAs in terms of competence. I believe the new QP is one of the measures that will uplift the entire profession. I hope it really can achieve that."

Paul's advice

She's own success in the profession and his work ethic set a high bar for the younger accountants in his team to follow.

She is Deputy Chairman of the Institute's Qualification and Examinations Board, responsible for the development of the new QP.

"There are a lot of CPAs, but not many qualified CPAs in terms of competence. I believe the new QP is one of the measures that will uplift the entire profession."

His rise to partner at a young age is an example in point. "Some wait for a vacancy," he says. "I tried to create that vacancy. When I was a manager, other than the good delivery of my work, I also thought about how to get new business and develop new markets. Beyond my responsibilities as a manager, I tried to behave like a partner."

Firms are now making partners at a younger age, he points out, noting that Mazars now has three partners around the age of 40. Being a partner is not the culmination of his career, he says, and nor should others consider it to be. "Being a partner is just a starting point. For me, becoming a partner was just a start to be involved in the management of the firm."

His advice to those seeking to emulate is success is to be prepared and look for business in new areas such as IT, entertainment and media. "Equip yourself, and prepare yourself to be ready for the opportunities around you," he says. "Some say there are not as many opportunities today, but I would say there are even more than in the past. The success of Hong Kong is because we are international. Young CPAs need to look more globally, or if not globally, at least regionally."

Just because others seem to be making a beeline for Mainland China is not a good enough reason to follow their lead, he adds. "There are many firms already there. It's important to seek out your own opportunities and look elsewhere."

She's greatest satisfaction comes from working with his team and helping them to develop themselves and share their successes. To help his younger colleagues develop a more proactive mind set, he gives them both power and authority. His aim is "not to protect them too much – give them space to make more decisions."

That goes hand in hand with asking open-ended questions, an idea that She has also included in the new QP. "I keep asking 'why?' instead of 'how?'" he says. "'How' is a technical judgment, but when you ask why, this makes them start to think and put themselves in other people's shoes."

She travels extensively in the region and when he is not working or away from home, he spends his time taking care of his family and enjoys chatting with them over meals.

She has been convinced of the importance of the profession throughout his career. Today, as talk has increasingly turned to how artificial intelligence (AI) may replace certain accounting tasks, he is confident that the profession's core role is secure. "AI cannot replace us in making professional judgments, so AI may replace accounting, but not accountants," he says. "I believe the future involves professional accountants. There are still many opportunities in the field."

The same is true of Hong Kong's role in a fast-changing world. "The core competitive edge of Hong Kong is we still have very strong capital markets," he says. "That relies on lawyers, accountants, valuers – that is how we can maintain the social status of professional accountants."

Mazars' operations now include offices in 86 integrated countries and territories. This year, they finalized external growth operations in Italy, the Netherlands, Singapore, Sweden and the United States.

THE RIDE OF THEIR LIVES

Beyond being fun, cycling reduces stress, strengthens muscles and increases cardiovascular fitness. The benefits are clear, but in a city where people routinely work long hours, it can be a struggle to find time and energy to exercise. CPA cyclists bring Jeremy Chan on a ride and share how they make time for the sport, and how it continues to change their lives

Photography by Anthony Tung

A hectic travel schedule left Dave Li little time to exercise, leading him to pack on the pounds over the years. But after one weekend ride things changed, and cycling became more than just a hobby for him.

With health as the main reason for taking up the activity, many CPAs have moved onto competitive cycling or joined cycling interest groups to meet fellow riders. To them, the sport is addictive. With Hong Kong's scenic cycling paths and strenuous uphill roads, more people are opting for a bike and helmet over running shoes.

For Li, Senior Vice President of Finance at Trinity Limited, cycling relieves the stress of work, and is a fun way to exercise. "I started because I wanted to lose weight," he says. He got into the sport just two years ago after his friend, a fellow cyclist, invited him to cycle with him one Saturday morning. He enjoyed it so much, that he ended up purchasing his own road bike shortly after, and made it a habit to wake up early on the weekends to train.

While he enjoys riding solo, Li says group cycling is more intense, and pushes him – and his toughened legs – to pedal harder. "We maintain an average speed of 25 to 30 kilometres an hour and ride much longer distances, sometimes up to 100 km in the mornings," he says. "You might not have the motivation to complete that distance by yourself."

By employing a technique known as drafting, he cycles further yet uses less energy. Road cyclists who race at high speeds leave a trail of low pressure, reducing the amount of wind for those behind. Cyclists in a group who maintain a formation by taking turns leading through regularly overtaking one another deal with less wind resistance and can use up to 40 percent less energy than an individual cyclist. "You need to keep up with the rest, because once you fall behind it's hard to keep up," Li says. "So that motivates me to keep up my pace."

To cycle at these speeds, Li says road cyclists steer away from designated cycling paths to avoid putting other cyclists such as children or the elderly in danger. They must ride directly in front of other vehicles. Doing so is risky and, as Li explains, must be done one way.

Dave Li wakes up early on weekends to cycle from Tsuen Wan to Sunny Bay

Tang Ah-Fai at his bike shop in Yuen Long

"Non-cyclists probably don't realize that Hong Kong is a great place to cycle."

"Riding on the side of the road is dangerous, as there can be sections with many trucks," he says. "We might crash into them, or they might crash into us." He learned this the hard way one foggy afternoon. "While I was riding on Castle Peak Road, a car's side mirror hit me, and I fell to the ground," he recalls. "I was alone at that time, so it was quite scary – but luckily the car wasn't going too fast, so I wasn't seriously hurt."

Undeterred by the incident, he still trains on that road, and has spent the better part of the last two years exploring the city's most scenic routes. "Non-cyclists probably don't realize that Hong Kong is a great place to cycle," he says, adding that his personal favourite path is from Sai Kung to Hoi Ha Beach as he enjoys the sweeping green mountains and vistas through the country park.

He has lost 7 kilos since starting, and has no plans to stop anytime soon. Along with his friends, Li started a cycling interest Facebook group, and looks forward to creating a close-knit community of passionate cyclists. "We want people to cycle with us on a casual basis."

New views

The city's lesser-known, picturesque landscapes in the western New Territories mean a huge deal for Tang Ah-Fai. He not only lives in Yuen Long, but he also owns a bike shop there. At first, opening up shop close to his home was a challenge. But after finding out that his cousin, a district councillor, had moved out of his office in the area, Tang jumped at the opportunity.

It took two months and just under HK$20,000 to decorate, paint, and convert the once plain-looking office into a vibrant bike store. He opened shop in March 2016 – much to the surprise of his friends and family. "I signed the contract for the shop before telling my wife. I was sure she would say no," he laughs. "After finding out, she said if I didn't make a profit in six months, I'd have to close the shop." With pressure from his family and own expectations riding on his new bike shop venture, Tang was determined to make a profit from selling and renting bicycles to customers.

With business going well, he planned on expanding his business. But a year after opening, green bicycles starting popping up around the town in the hundreds. Hong Kong bike-sharing company Gobee.Bike expanded their reach into the area, attracting many residents with its competitive pricing and convenience to ride using their fluorescent green bikes.

With Tang's business, and other bike shops in the area facing similar jeopardy, Tang went back to the drawing board. "My rental business was affected, so instead of renting out individual bikes, I started offering bike tours around the western New Territories." Knowing that no other bike shops offered such a service, Tang worked steadfastly to bring his idea to life. "I redesigned my website and advertised a bike tour service."

Tang Ah-Fai still keeps his first ever bicycle

By having a bicycle tour of the area's most idyllic viewpoints and historical monuments, customers began to approach Tang.

One of Tang's favourite stops on his bike tour is Ha Pak Nai, a mudbank and wetland area surrounded by mountain ranges. Located at the westernmost section of the New Territories, visitors regularly venture out to marvel at the sunset. Also part of the tour is Nam Sang Wai Wetland and Tsim Bei Tsui, stopping points for migratory birds, as well as historical monuments such as Ping Shan Pagoda, Tang Ancestral Hall, and Ling To Monastery. "All these places are important to me because I grew up in this area," he says.

"With my shop, I hope to pass the message on to everyone that cycling is good for your health."

Organizing and bringing out groups of 10-15 cyclists on the weekends keeps Tang busy and fulfilled. "I am happiest when overseas customers tell me how much they enjoy seeing the historical monuments and beautiful scenery. They now have good memories of Hong Kong."

The main reason he opened his own bike shop is not lost on Tang. "Many people dedicate their lives to making money and ignore their health," he says. "With my shop, I hope to pass the message on to everyone that cycling is good for your health." Though busy at work, Tang says his new job has freed up a lot of time for him to continue his one true passion of cycling. "I live a few kilometres away, so I ride my bike to and from my shop in the mornings or after closing in the evening. I can exercise anytime now." Getting into the sport as a young boy, he says there is one particular bike in his shop that is most special. "When I was 11 or 12, by dad bought me my first bike which was really important to me – in fact, I still have that bike today! It is over 40 years old," he smiles. Tang looks forward to expanding his shop's services online and also, to taking part in more cycling events and gatherings. "I want to form a team of CPA cyclists to train, and also join the Cyclothon together!"

State of mind

With his Hong Kong Cyclothon certificate on display, Dennis Ko smiles and speaks eloquently about his experience. Finishing his second Hong Kong Cyclothon last month, he mentions that getting through a 30-kilometre dash requires tough legs, but an even tougher mind.

Already a keen runner and dragon boat rower, his first brush with competitive cycling was in 2009 while training for his first triathlon, the Hong Kong ITU Triathlon Asian Cup. He didn't consider taking it further until a co-worker brought it up years later. "I had a colleague who was crazy about cycling, and he invited me to join," he recalls. Convinced, Ko put his name down, hired a cycling coach, and began training soon after.

Ko, who is the owner of a business advisory company specializing in family-owned companies, dedicated two months of vigorous training to get himself in shape. Finishing 80 km over two days every week, he regularly works up a sweat in Kowloon and on Shek Kip Mei's uphill roads. With his coach, Ko learned the essentials such as switching gears on different inclines and having good posture. But he says his coach also emphasized having the strength to overcome mental obstacles, such as the fear of injury due to riding at high speeds. "There was very heavy rain during the race and low visibility, so I couldn't see that much in front of me," he says, remembering his first Cyclothon experience in 2016. With

his feet locked into his biking pedals, Ko knew there was no room to hesitate, and that he had to maintain his speed despite the slippery conditions and rain pelting on his face. "Since there were no cars on the road, I just relaxed and kept on cycling," he says. "And while I was going down the highway, it felt like I was flying though in the air. I look back, and really enjoy that feeling of freedom."

The correct breathing technique, combined with good pacing also plays a part

Dennis Ko finished this year's Hong Kong Cyclothon in one hour and 12 minutes

in finishing a race, he says. "Try to take deeper and more rapid breaths, especially when you cycle behind other cyclists," he says. "Save your energy until near the end." Ko used this technique in last month's Cyclothon. "I remember going quite fast during the last 5 km. I was speeding down the road as I only used my brakes once."

Tempting as it is to slow down in danger, cyclists like Ko have trained themselves to overcome that fear of skidding and falling, and continue to use it to their advantage. "You really need the guts to go downhill fast," he says. "I was trained to not use the brakes when going downhill. You need to increase as much speed as possible." Ko adds that staying focused on the race at hand is the best way forward. "Don't focus on cyclists who are faster than you," he adds. "Know your level of fitness and don't push yourself too much. Just remember what you have practiced."

With this year's Cyclothon done, Ko is busy training for the next triathlon, and when he isn't cycling, he's still moving. "I actually run every Thursday with my friends from secondary school – we run for about 45 minutes," he says. "We've been doing this every Thursday for the last 30 years."

According to a 2017 study by The Education University of Hong Kong, of the 12.3 million commuting trips made daily, only 0.5 percent are made by bike. Of that percentage, 97 percent of cycling commuting occurs in the New Territories.

OECD revised profit split method and Hong Kong transfer pricing landscape

With the increasing complexity in the operating environment for multinational enterprises (MNEs), collecting corporate taxes has become a challenging task for most tax authorities. With more attention focused on reshaping and aligning with the international tax regulatory landscape, the Hong Kong Inland Revenue Department (IRD) issued its transfer pricing (TP) regulations through The Inland Revenue Ordinance (Amendment) (No. 6) 2018 (Amendment Bill No.6), enacted on 13 July. The general direction and focus of the Hong Kong TP regulations primarily follows and emulates the arm's length principle and TP approaches issued by the Organization for Economic Cooperation and Development (OECD) in the *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* (OECD TP guidelines) issued in July 2017.

In June, the OECD published its final *Revised Guidance on the Application of the Transactional Profit Split Method* (the revised guidance) to provide clarity around the practical application of the profit split method between associated enterprises. Work on the revised guidance was initiated as part of the OECD Base Erosion and Profit Shifting (BEPS) Action Plan, which attempts to clarify today's multifaceted cross-border transactions between related enterprises as global value chains have grown increasingly complicated.

Since TP legislation is fairly new in Hong Kong, this article explores the potential impact of the revised guidance on MNEs operating in Hong Kong and analyses whether the application of the revised guidance could provide a breath of fresh air to Hong Kong's business environment.

Recent transfer pricing development

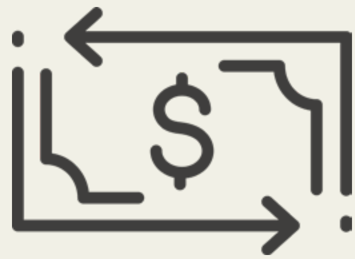
In response to the global downturn, Hong Kong businesses revamped their operational structure, designed new and innovative services, and transformed the research and development (R&D) environment to improve their competitive advantage. Additionally, the Hong Kong government introduced various incentives to attract and support R&D with the aim of increasing these activities as a percentage of gross domestic product. Together, these changes are an attempt to strengthen Hong Kong's services and retail industries, to advance them into a high-value added status, and to ensure Hong Kong to remain as an integral part of global economic value chain.

Overview of Hong Kong transfer pricing landscape
The Amendment Bill No. 6 is to be administered meticulously in accordance with the OECD TP guidelines, and aligns Hong Kong's regulatory standard with that of OECD countries. It is expected that Hong Kong will also apply the revised guidance on the profit split method issued by OECD. Based on how the OECD TP guidelines and the revised guidance delineate the functions and risks analysis in inter-company transactions, taxable profit is attributable to entities that develop, enhance, maintain, protect or exploit (DEMPE) the economic rights of intellectual property (IP). This is of special interest, and concern, to the Hong Kong MNE community because the Amendment Bill No. 6 also incorporates this specific OECD stipulation on how to police the DEMPE functions of intra-firm intangible transactions. This deeming provision, which is effective from years of assessment beginning on or after 1 April 2019, targets income derived by a non-Hong Kong resident from IP to which its Hong Kong associate creates and owns the economic rights to such IP. While it is still unclear how the IRD would handle this new deeming provision, Hong Kong enterprises with closely connected business to their MNE groups ought to re-evaluate their TP positions and approaches.

Overview of the revised profit split method

Selection criteria of profit split method
Unlike the previous version of the OECD profit split method, the revised guidance clearly aims to identify profits (or losses) generated from economic activities of MNEs and where value is created. The general purpose of applying the revised method is to establish the arm's-length principle in transactions between associated enterprises, with reference to the value contributions of each party. The revised guidance provides clarity on the definition and application of the profit split method, all the while maintaining the central theme of the OECD TP framework – the arm's-length principle. The revised guidance showcases three new factors indicating the selection criteria of the profit split method:

1. **Whether the unique and valuable contributions of each associated party involved in the controlled transaction exist.** This illustrates that



there is a strong two-way economic relationship between the associated parties, and it is key in identifying the contributions to the commercial and financial benefits for both parties. The revised guidance clearly states that such contributions must be so unique and valuable that no similar third-party contributions can be identified.

2. **Whether the business operations of each related enterprise are highly integrated.** In determining the degree of integration, the revised guidance cautions taxpayers that the related business operations must be so interdependent that their contributions to the transaction cannot be evaluated separately. Isolating the functions, assets and economic risks of each business operation will give rise to an unreasonable and unreliable result. Economic benefits should be split when highly integrated business is analysed holistically.
3. **Whether the associate parties share the assumption of economically significant risks or separately assume closely related risks in the transactions.** According to the revised guidance, taxpayers should identify the existence of economically significant risks that are solely related to the controlled transaction. If economically significant risks are shared or interrelated to all associated enterprises, then the economic profit (or loss) associated to the shared assumption of these risks cannot be reasonably isolated.

Application of profit split method

Since the revised guidance is part of the OECD TP guidelines, the selection of TP method must be consistent with these guidelines. Specifically, the split of profits needs to be economically consistent with how independent parties would do so. Namely, the split of profits should be aligned with functional analysis and the assumption of economically significant risks; and the split can be reasonably measured. Taxpayers should determine the appropriateness in applying the profit split method ex-ante so that this method could be applied consistently over the life of the arrangement unless significant changes take place.

To apply this method, the revised guidance provides specific approaches commonly used to split profits between associated enterprises. These suggested approaches are:

(i) Contribution analysis, which considers the overall and relative contribution of each related party in the transactions; and

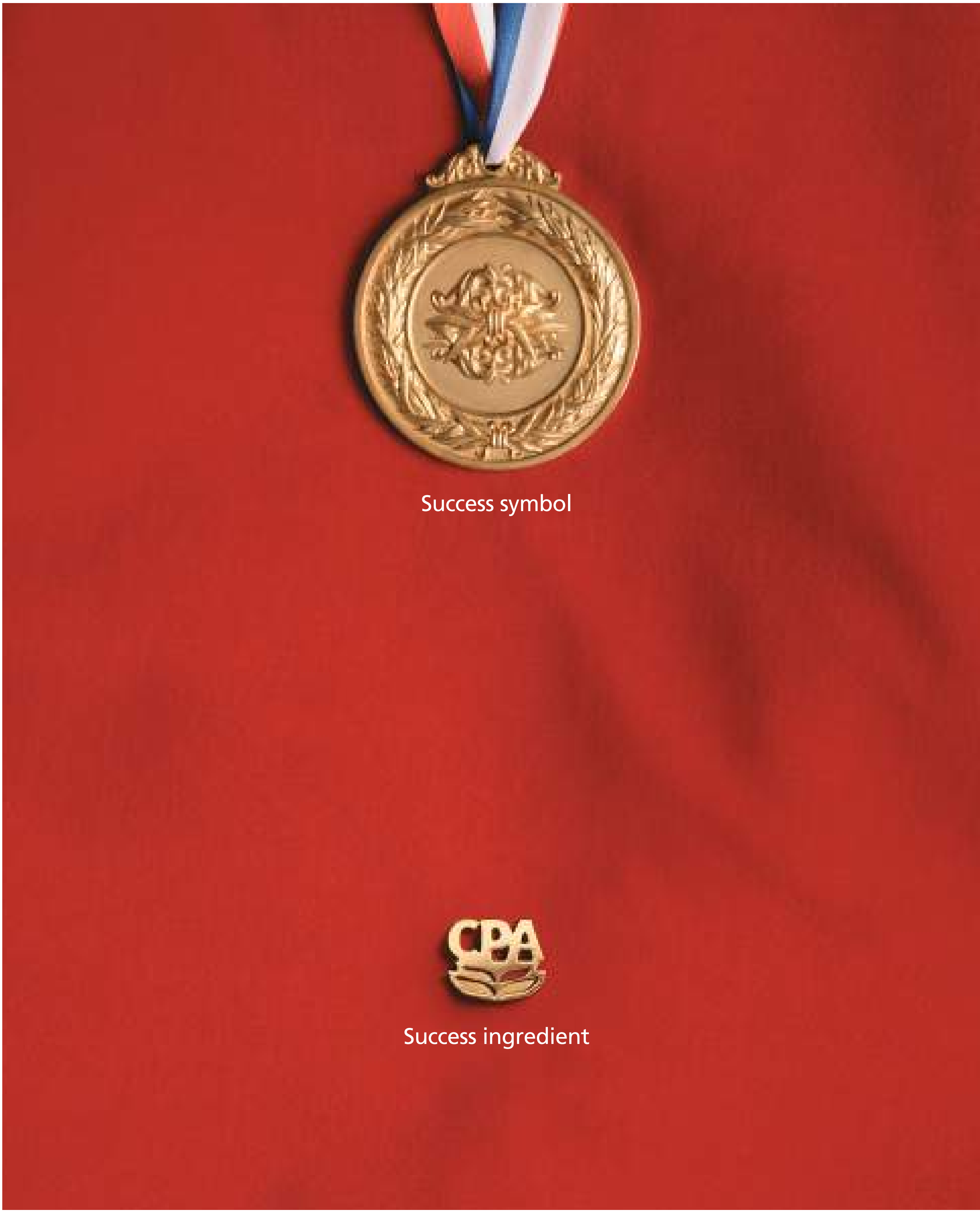
(ii) Residual analysis, where certain less complex contributions in the transactions can be separately priced and compensated before splitting the residual profits.

In determining the profits to be split, the associated enterprises must first identify the profits (or losses) related to the controlled transactions under review, requiring accounting treatments (e.g. revenue recognition, depreciation, etc.) between associated enterprises to be aligned. The revised guidance favours using actual over projected profits as this improved accuracy and can help identify economically significant risks in the related party transactions. To ascertain the appropriate profit splitting approach, the revised guidance suggests that profits can be split at either the gross or operating level, depending on the circumstances, the factors used to split the profit must be objective, verifiable and supportable. They must also be analogous to “market” transactions between independent enterprises.

The revised guidance provides a non-exhaustive list of factors that may be applied in the profit split approach. Some reliable factors in splitting profits could be based on assets (e.g. fixed assets, intangibles, etc.), capital, or costs (e.g. relative spending, strategic investment, R&D, etc.), incremental sales, employee compensation, employee headcount or employee time spent. The revised guidance states that these factors could be applied so long as “a strong and relatively consistent correlation between these factors and the creation of value represented by the relevant profits.”

Implications of the revised guidance

Based on the revised guidance, MNEs operating in Hong Kong should be cognisant regarding their roles, responsibility and interaction within groups. The application of the profit split approach, therefore, is a tell-tale sign of how influential and integrated the Hong Kong businesses are from a global perspective, and the value they have contributed towards the global business environment. However, to apply the profit split approach, Hong Kong taxpayers must exercise caution. For instance, the principal assertion is that joint economic


Success symbol
CPA
Success ingredient

significance, risks, value creation and business operation are key indicators in examining the three profit split criteria, but under no circumstances can that unique value only be created via marketing and technological intangibles.

The revised guidance asserts that each business function could contribute value to the overall business operation, including what is traditionally categorized as "routine service." This is because routine services provided frequently intertwine with the overall business process, and even the most mundane service could be an integral part in business value creation.

Example 7 in the revised guidance injects this very concept and is particularly pertinent to Hong Kong. Being a trading port handling export and import freights, Hong Kong has historically provided "trivial" services in international trading businesses. Traditional TP wisdom would say that such trade facilitation, freight forwarding, custom clearing and broking services are all routine, simple and low-value services. This could be an accurate statement if these activities were examined from an isolated manner.

However, the revised guidance undermines such traditional concepts, that seemingly routine freight or logistical service could indeed be highly integrated into the overall business; and as such should be considered part of the overall value chain of an international trading business operation. Additionally, this service shares the "assumption of the economically significant risks associated with the transaction" and thus actual profit should be split among associated enterprises involving in the business, meaning that routine activities could truly add value into the MNEs business operations when they generate unique and valuable contributions.

As we observe MNEs in Hong Kong, many could be considered as highly integrated within the group, assume significant economic risks and make valuable and unique contributions. The OECD arm's-length principle and the revised guidance suggest that profits attributable to these Hong Kong operations implies the economic value created and owned, as the OECD TP guidelines ignores the location where these activities take place, unlike the traditional Hong Kong sourcing rule concept.

The revised guidance asks basic questions of functions performed, risks assumed and assets employed by the Hong Kong entity to determine the three profit splitting criteria. Just as in the Amendment Bill No. 6, the DEMPE provision aims to identify income derived by a non-Hong Kong resident from IP created by its Hong Kong associate. Therefore, even if the intra-firm transactions are executed outside of Hong Kong but valuable and unique contributions are made by the Hong Kong entity, a portion of the profit is attributable to the Hong Kong entity.

Though the location of where the intra-firm transfers take place could help to determine how MNEs' profit should be split, the OECD TP guidelines focuses on attributing profits to the value-creating entities. The revised guidance further reiterates this concept when determining the profit splitting criteria and factors. Therefore, MNEs must exercise caution in reconciling the differences between Hong Kong's sourcing rule and the OECD TP approaches adopted under Amendment Bill No. 6 – especially in applying the profit split method.

Key takeaway

Undoubtedly, the revised guidance provides clarity to MNEs in scrutinizing their TP position and allows them to assess the value they create and contribute globally. As such, the key takeaway is that the IRD and the Hong Kong businesses should critically – yet carefully – explore the applicability of the profit split method, as it allows Hong Kong enterprises to realize their business value contribution from a global perspective. Though it is important to recognize the economic value of Hong Kong businesses, questions remain as to how business value is perceived under the Hong Kong sourcing concept versus the OECD TP guidelines.

This article is contributed by **Enoch H. Hsu** Ph.D, Director of Transfer Pricing at BDO Tax Limited.

Prepare for change

Observations on how China is reacting to the Sino-U.S. trade dispute

Over the course of 2018, the trade relationship between China and the United States has been in news headlines countlessly – and there is no sign of the news cycle changing focus. Throughout, the U.S. government has been very expressive concerning its rationale behind the actions it has taken, as well as the considerations it would be taking when formulating its future actions. At the same time, the voices from the Chinese authorities appear to be comparatively subtle and it is important to read "between the lines" in order to fully appreciate the reactions taken. This article aims to share the observations made from various economic research data, the views shared by key Chinese officials, and the analysis of leading financial institutions.

China has accelerated its pace of reform

Some Chinese government officials believe that the changes in Sino-U.S. relations would help to push China's own desired reforms. A key area of reform is market access. Increasing market access is an integral part of the suites of requests raised by the U.S. government and in response, the Chinese government announced in June the "2018 National Negative List," which comprehensively relaxes market access restrictions across a range of primary, secondary and tertiary industries, detailing opening-up measures in 22 sectors including finance, infrastructure, transportation, trade and commerce, culture, agriculture, energy and other related areas.

The Chinese government is working harder to improve the business environment for both Chinese and foreign enterprises. For instances, in the recently published report, the *World Tax Report (世界納稅報告)*, China made significant improvements in its tax administration – the average annual time spent on tax filing has decreased 31.4 percent to 142 hours (versus a global average is 237 hours) while the average number of tax filings has been reduced to seven times a year (global average is 23.8 times). Also, a recent public notice by the Chinese State Administration of Taxation (SAT) set out 26 measures which aim to help businesses from a taxation perspective.

It has also been suggested that the current Sino-U.S. trade dispute would only accelerate China's shift away from an export economy, dependent on global trade demand, towards a more self-reliant consumer economy of which Internet-related activities contribute a higher share of gross domestic product (GDP) than the developed economies of the U.S., Japan and Europe. China is already making progress in this regard, considering the record-breaking sales made over the Singles' Day/Double 11 e-retail festival – with total online sales over the 24 hour period on 11 November of US$45 billion, representing a 23.8 percent increase over the prior year, a record itself. As part of the reform strategy, the Chinese government would continue backing the growth of e-commerce and/or the mobile economy, creating a buffer to the negative impacts stemming from the unpredictable global trade environment.

Companies are moderating their investment and operational strategy

The Sino-U.S. trade dispute is disrupting supply chains. Multinational companies (MNCs) relying on complex global supply chains could find that some of their suppliers suddenly disappear, creating pressure for replacing component suppliers and prolonged interruption to manufacturing processes. For example, some Chinese manufacturers who imported U.S.-origin goods into China (e.g., for domestic manufacturing and subsequent domestic sales) are planning to either switch to suppliers who can sell them goods which do not originate from the U.S. or adopt tax planning arrangements to mitigate the additional costs stemming from the tariff increases. In order to make a successful switch, the Chinese companies would need to build new – or reinforce existing – relationships with overseas trading partners or consider insourcing the production of intermediate goods.

Chinese manufacturers who export China-origin goods to the U.S. (including those included on the U.S. increased tariff product lists) would need to better understand their true supply chain footprint. This process could in turn help them to formulate solutions, which could involve corporate carve-out or investment in capital equipment (e.g. when considering moving some manufacturing processes out of China), price changes as well as liaising with the U.S. Importer of Record of their goods to adopt U.S. tariff planning arrangements (e.g., first sales). Another important focus for businesses right now is a thorough review of their working capital facilities and inventory levels. This will help businesses assess the extent to which the organization can sustain a hit on turnover or adapt quickly to a period of extended supply chain disruption.

Another important observation is that an increasing number of MNCs chief executives who are rethinking whether they should consider corporate carve-outs, reengineering their supply chains, relocating their distribution centers and reworking their capital investment plans. Statistics from the U.S. Toy Industry Association show 85 percent of the toys selling in the U.S. are made in China, and

it has been reported that, Hasbro, one of the top toy makers, will move the bulk of its China production out to mitigate the increasing tariffs. The toymaker, which sources 70 percent of its products from China, will move to other parts of the world, Chief Executive Officer Brian Goldner said during a conference call in July. However, it was reported that the relocation would be made to other low-cost countries instead of the U.S., and that shifting of production could take a couple of years because these low-cost countries do not appear to have the fundamental infrastructure (e.g. power and electricity) and supply chains necessary to support operations with complex supply chains.

China has introduced/is considering introducing more measures to mitigate the negative impacts to the domestic market

Both the International Monetary Fund and the People's Bank of China have forecasted that the Sino-U.S. trade dispute would negatively impact the global economy. To mitigate these impacts, the Chinese government has introduced a suite of measures to ease the pressure for businesses. Tax reduction has been identified as one of the most effective macroeconomic tools to aid companies. The government has developed the following plans:

- Export Value Added Tax (VAT) refund – On 22 October, the Chinese Ministry of Finance and SAT jointly released Caishui [2018] No. 123 (Circular 123) to adjust export tax refund rates for certain commodities. This is the second time that the relevant government authorities have adjusted the export VAT refund rates in 2018. Most of the commodities subject to the rate changes have been included in the Sino-U.S. tariff lists:

Chinese export products subject to changes	Export VAT refund changes
Commodities including photographic films, plastic articles, bamboo flooring, tempered glasses, etc.	Increase from 13% to 16%
Commodities including lubricant, aircraft tyre, carbon fibre, etc.	Increase from 9% to 13%
Commodities including certain agricultural products, bricks, glass fiber, etc.	Increase from 5% to 10%
Soybean meal (i.e., HS code 23040010 and 23040090)	Removed from export VAT refund

As well as the commodities mentioned above, the export VAT refund rates for other export commodities have been increased from 15 percent, 9 percent and 5 percent to 16 percent, 10 percent, and 6 percent, respectively.

- 26 tax measures to stimulate private businesses – On 16 November, SAT issued a notice, Implementing Several Measures to Further Support and Serve the Development of the Private Sector. The notice set out a suite of 26 measures to support the development of private businesses – divided into five categories:
  1. Tax reduction
  2. Enhancement of business operation environment
  3. Providing targeted assistance
  4. Tightening of tax collection administration
  5. Strengthening of tax bureau organization

It has been reported that tax reduction would be considered as the most important task for implementation and it is expected that further announcements relating to tax reductions (i.e. further VAT rate reductions) would be made before the end of 2018.

What do businesses operating in China need to be thinking about?

For many businesses, keeping up with the implications of the trade dispute is proving difficult – particularly given the view that the complexity made to the global supply can no longer be easily unwound through a few rounds of reconciliatory negotiations.

The immediate impact of tariffs will be higher prices for some products in the U.S. and China, meaning both countries are likely to see a fall in consumer demand and inflationary pressures. Businesses need to understand the global equilibrium has been disrupted, prepare for a range of possible outcomes in the long term, and look for new opportunities. From short-term impacts on supply chain costs and consumer demands, to the longer-term implications on competitiveness and viability – businesses need to be equipped with the right mindset and be receptive to change.

This article is contributed by **Kenneth Leung**, Greater China Indirect Tax Leader of EY

TechWatch 193

The latest standards and technical developments

Local updates

Technical bulletin
The Institute's Auditing and Assurance Standards Committee issued the *Implementation Guidance on Revised Hong Kong Standard on Investment Circular Reporting Engagements 400 Comfort Letters and Due Diligence Meetings.*

Invitations to comment
The Institute is seeking comments on:
- Exposure Draft Practice Note 830 (Revised) *Reports by the Auditor under the Banking Ordinance* by 26 November; and
- Post-implementation Review of Small- and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard by 18 February 2019.

International updates

IFRS updates
- October International Accounting Standards Board *Update* and workplan.
- September IASB Transition Resource Group for IFRS 17 meeting summary and podcast.
- Podcast and press release on October IASB meeting, which covered the next steps in implementation support for IFRS 17

Other publication
- International Auditing and Assurance Standards Board published an update on how it has addressed and plans to address professional scepticism within the standards.

Professional accountants in business

Company director convicted for giving false information to Companies Registry
A director of a Hong Kong company was prosecuted by the Companies Registry (CR) under section 750(6) of the Companies Ordinance for knowingly or recklessly giving false or misleading information to the Registrar of Companies. The case relates to false information provided by the defendant in the application form which was lodged with the CR for deregistration of a company.

The director pleaded guilty and was fined HK$15,000 for the charge.

COSO and WBCSD guidance on ESG-related risks
The Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD) have recently released "Guidance for Applying Enterprise Risk Management (ERM) to Environmental, Social and Governance (ESG)-related Risks."

This guidance, which aligns with COSO's widely accepted ERM – Integrating with Strategy and Performance, is intended to bring ESG risks and opportunities into a clearer focus for mainstream business and other organizations around the world. It is designed to enhance organizations' resilience as they confront the increasing prevalence and severity of ESG-related risks, ranging from extreme weather events to product safety recalls.

Small and medium practitioners

IFAC SMP Survey reveals digital transformation talent management as key to growth for SMPs
International Federation of Accountants (IFAC) conducted the 2018 Global Small and Medium Practices (SMP) Survey early this year and has recently released the results. Targeted at senior SMP professionals, whose clients are predominately small- and medium-sized entities, the survey takes a snapshot of key issues, and tracks important trends and developments, facing this critical sector.

The survey received more than 6,000 responses from 150 countries.

According to the survey results, over a quarter of SMPs plan to allocate more than 10 percent of practice revenue over the next year to technology investment, reflecting its importance in practice management and operations. As transactional activities become increasingly automated, firms are leveraging technology to provide business insights from data analytics as a new service offering. A significant majority of SMPs provide business advisory and consulting services, with a majority of those predicting a moderate or substantial fee revenue growth over the next 12 months in this service line.

Talent remains a top challenge for SMPs. The majority have difficulty attracting next generation talent, with 66 percent stating the number one reason is lack of candidates with the right mix of skills. This highlights the importance of continuing education and the development of new competencies for the digital global economy.

Corporate finance

Institute comments on review structure in relation to Listing Committee decisions
The Institute issued a submission on 12 October responding to Hong Kong Stock Exchange's (HKEX) proposals to streamline the review process for listing matters and enhance transparency in decision-making. While we support the general direction of HKEX's proposals, the Institute suggests that qualified senior and experienced market participants/professionals, who have not served on the Listing Committee, should be the members of the proposed new independent review committee (ILRC). This can increase the independence and competence level of the new ILRC for replacing the existing two-level review process.

In addition, the Institute considered

that the authority of the ILRC, provided that it is formed from independent and suitably qualified members, should be strengthened. In particular, the ILRC's decisions should be regarded as final and conclusive to expedite the review process.

SFC consultation conclusions on amendments to anti-money laundering guidelines

The Securities and Futures Commission (SFC) published consultation conclusions on amendments to anti-money laundering and counter-terrorist financing (AML/CFT) guidelines on 12 October.

According to the revised guidelines, international organization politically exposed persons (PEPs) will be included in the categories of PEPs. Enhanced due diligence procedures for foreign PEPs will be applied by firms on the domestic PEPs and international organization PEPs, if their business relationships with the firm are assessed to be of high risk.

Firms are also given flexibility to adopt reasonable risk-based measures to verify customer identification information.

The revised AML/CFT guidelines took effect on 1 November.

SFC consultation conclusions on financial resources rules

The SFC published consultation conclusions on proposed amendments to update the Securities and Futures (Financial Resources) Rules (FRR) on 19 October.

The main changes include: (i) relaxing the treatment for foreign currencies subject to exchange control; (ii) clarifying the treatment for non-freely floating foreign currencies; (iii) introducing and updating haircut percentages for certain types of securities and investments; and (iv) refining the treatments for amounts receivable arising from securities transactions.

The proposed amendments were gazetted and will be submitted to the Legislative Council for negative vetting, and are expected to be effective from 1 April 2019, with the exception of amendments related to a new accounting standard which will take effect on 1 January 2019.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- New requirements relating to double taxation relief on salaries tax-transitional arrangements.
- Passing of the Inland Revenue (Amendment) (No. 4) Bill 2018, which gives effect to a tax deduction under salaries tax and personal assessment to people who purchase eligible health insurance products for themselves or their specified relatives under the Voluntary Health Insurance Scheme, starting from 1 April 2019.
- Gazettal of:
  - Inland Revenue (Amendment) (No. 7) Ordinance 2018 to provide enhanced tax deduction for the expenditures incurred by enterprises on research and development activities in Hong Kong.
  - Inland Revenue (Amendment) (No. 7) Bill 2018, which, among other things seeks to align the tax treatment of financial instruments with their accounting treatment.
  - The Financial Institutions (Resolution) (Loss-absorbing Capacity (LAC) Requirements – Banking Sector) Rules, and the Inland Revenue (Amendment) (No. 6) Bill 2018, in view of the commencement of the Financial Institutions (Resolution) Ordinance (Cap. 628) to prescribe minimum LAC requirements for authorized institutions and their group companies.
  - A legal notice to authorize a change in the rate of interest payable on Tax Reserve Certificates.
  - Stamp Duty statistics (September 2018).

Legislation and other initiatives

Anti-money laundering notices

Members should note the following notice and public statement in relation to AML/CFT:

- Government Notice 7778: Pursuant to section 133(1) of the Insurance Ordinance (Chapter 41) and section 7 of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615), the revised Guideline on Anti-Money Laundering and Counter-Terrorist Financing (GL3) is published by the Insurance Authority. The revised Guideline comes into operation on 1 November 2018, and shall supersede the previous version of the Guideline.
- Subsequent to the Financial Action Task Force (FATF) Plenary and Working Group meetings held between 14 to 19 October 2018, FATF issued a public statement regarding two jurisdictions, and a document titled "Improving Global AML/CFT Compliance: On-going Process" concerning eleven other jurisdictions. Members are advised to take note of these materials.

For updates on lists of terrorists, terrorist associates and relevant persons/entities under United Nations sanctions, members should also refer to the Institute's AML page.

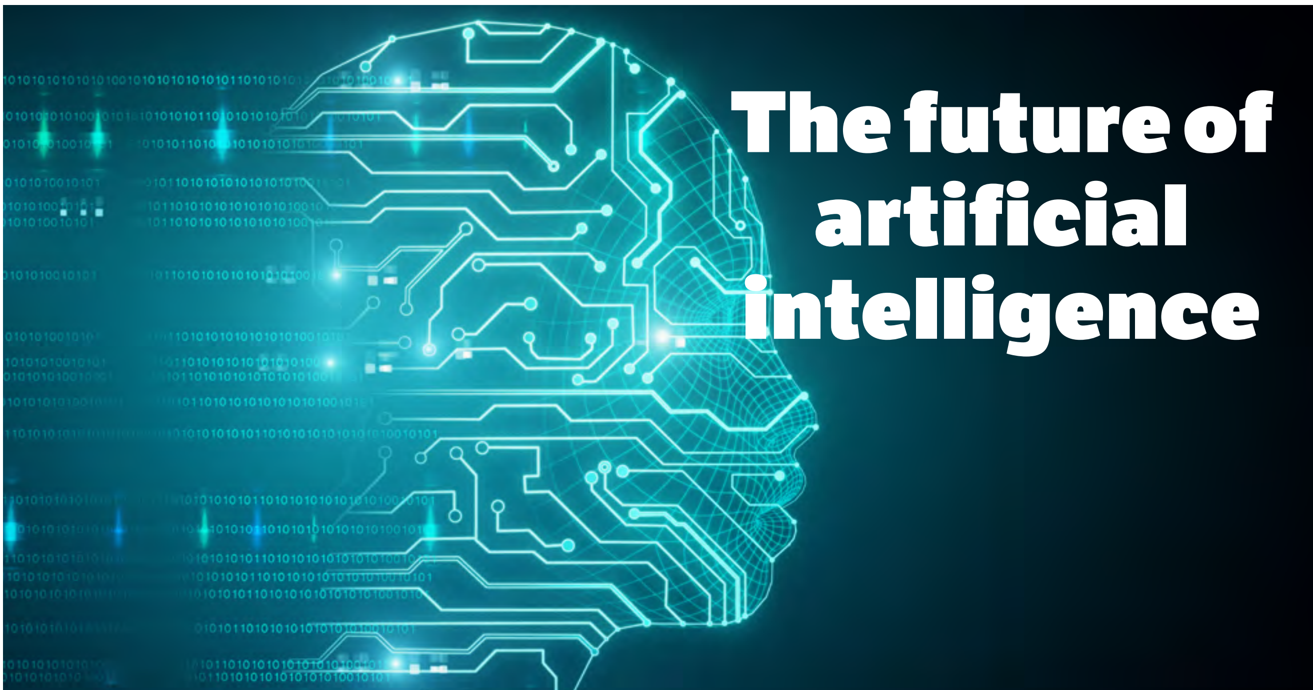
Please refer to the full version of TechWatch 193, available as a PDF on the Institute's website: *www.hkicpa.org.hk*

After hours

Book review **Life and everything** **Let's get fiscal**

Book review

The future of artificial intelligence



Title: **AI Superpowers: China, Silicon Valley, and the New World Order**
Author: **Kai-Fu Lee** Publisher: **Houghton Mifflin Harcourt**

The accounting profession is both inspired and intimidated by the possibilities of artificial intelligence (AI). One of the most popular events at the recent World Congress of Accountants in Sydney (see *At the crossroads of technology and integrity* on page 26) was a presentation on AI, which lauded its potential but warned against its pitfalls.

Kai-Fu Lee is a Taiwanese-American computer scientist turned venture capitalist. In his recently released book, *AI Superpowers: China, Silicon Valley, and the New World Order*, he looks at the differing approaches to the technology among developers in the United States and China.

Lee's technology background enables him to easily explain to the reader the differences between neural networks, deep learning and AI. All of which are important distinctions in an era where the mass media tend to lump together various strands of new technology.

Tracing the history of AI and his own interest in neural networks from his time at Columbia University in the 1980s, Lee acknowledges that the fundamental research that allowed it to develop took place mostly in the U.S., Canada and the United Kingdom.

It was the victory over a human Go champion by the AlphaGo machine – a product of the British AI start-up DeepMind, which had been acquired by Google in 2014 – that became China's Sputnik moment, galvanizing authorities into fast-tracking AI development, just how the launch of the Soviet Union's artificial satellite in 1957 prompted Washington to redouble their efforts and, eventually, win the space race.

Years of insights from international research enabled Chinese entrepreneurs and venture-capital funds – including Lee's – to invest in this area. That funding, says Lee, leveraged "the country's most significant strength: scrappy entrepreneurs with sharp instincts for building robust businesses."

Today, Lee is confident that it is Beijing that has the AI edge, thanks to its enhanced ability to gather data about its citizens. "China has already surpassed the U.S. in terms of sheer volume as the number one producer of data," he notes.

But it's not just quantity that counts. "That [Chinese] data is not just impressive in quantity," he adds, "but thanks to China's unique technology ecosystem – an alternate universe of products and functions not seen anywhere else – that data is tailor-made for building profitable AI companies."

While Lee charts the technological race

between the U.S. and China in great detail, there is a deeper vein to the AI story: how far should the lines blur between human and machine. AI, he writes, has the potential to either uplift humanity or cast it into the depths.

Lee notes that even among the technologically savvy, AI provokes deep emotions. Google's Director of Engineering Ray Kurzweil envisions a radical future in which humans and machines have fully merged. Tesla's Elon Musk has described advanced AI as "the biggest risk we face as a civilization," comparing its creation to "summoning the demon" during an interview at Massachusetts Institute of Technology.

The most pressing concern about AI – and one which accountants share – is its ability to displace human employment. Low-skilled and junior workers in particular, are concerned that machines can do their work.

Accountants, Lee argues, will potentially be in the firing line, along with assembly line workers, warehouse operators, stock analysts, quality control inspectors, truckers, paralegals and radiologists.

But Lee doesn't see a bright-line divide between people skills and machine abilities. "AI's biases don't fit the traditional one-dimensional metric of low-skill versus high-skill labour," he writes. "Instead, AI creates a mixed bag of winners and losers depending on the particular content of job tasks performed."

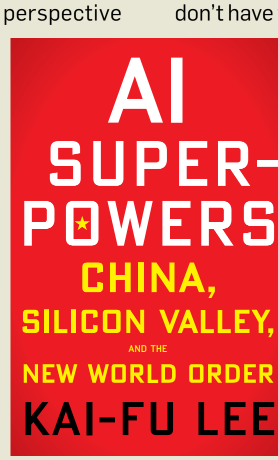
Nevertheless, Lee's perspective as a technology investor makes him hopeful about the future. Of the intense competition between American and Chinese AI innovators, he says: "This is not a new Cold War." He admits that his use of the word "superpowers" in his title suggests conflict and confrontation, but notes: "AI today has numerous potential military applications, but its true value lies not in destruction but in creation."

Although AI has the potential to disrupt society, Lee has no time for advocates of a coming "singularity" – when machines are undifferentiated from people. AI, he is certain, will remain in the hands of its creators for better or worse. "Our present AI capabilities can't create a super-intelligence that destroys our civilization," he writes. "But my fear is that we humans may prove more than up to that task ourselves."

Author interview: Kai-Fu Lee

The career path of Kai-Fu Lee runs almost parallel with the history of modern consumer technology. He ran the multimedia division at Apple during the company's wilderness years in the 1990s, worked at SGI, and started Microsoft's China-based research unit before launching Google China in 2005.

It is that dual perspective – working for Silicon Valley behemoths in a China context – that has given him a unique perspective on how the two technology cultures compete. "It's almost like a parallel universe," he says, speaking on a recent book tour.



"The United States is very well-segmented, with companies like Google, Amazon and Facebook each having clearly ... separate [roles]. In China, everybody was competing with everyone. Alibaba had the entire payment [ecosystem to itself] but all of a sudden, in one year, Tencent took almost half of that away from them."

Born in Taiwan, Lee emigrated to the U.S. as a child and attended New York's prestigious Columbia University before obtaining a doctorate at Carnegie Mellon University in Pittsburgh. He quickly became caught up in China's technological entrepreneurial boom and counts Alibaba founder Jack Ma as a long-term mentor.

One of Lee's hopes in writing the book was that it would put to rest some of the myths about artificial intelligence. "AI is the study of how to make machines think like us," he explains. "With large amounts of training data, it can make very accurate decisions, predictions, classifications and syntheses, but only in one domain – that's its Achilles heel."

That, Lee reassures, is why you don't have to worry about being ruled by cyborgs. "We humans can think broadly, strategically, creatively and cross-domain. "We have common sense and AI doesn't have any of that. It is basically a pattern recognizer."

Despite the potential for labour and social problems, Lee is convinced that AI will eventually be seen as of benefit to society as a whole. "When we look back in 50 years, I think we would recognize that AI is actually serendipitous, because it takes away the routine jobs that were never meant for us to do."

AI, he adds, is humanity's chance for freedom. "After thousands of years of evolution we are still here like little rodents running around in the wheel doing the same thing over and over again thinking that's the meaning of our lives," says Lee. "I'm thinking that our maker perhaps got so sick and tired of it he decided to give AI to us."

Arts

A TIMELESS ADVENTURE

Get into the Christmas spirit with Hong Kong Ballet at the FANCL Proudly Presents *The Nutcracker*. Set to the music of Tchaikovsky performed live by the Hong Kong Sinfonietta, the ballet performance is based on the original story *The Nutcracker and the Mouse King* where a girl's Christmas toy, a nutcracker, comes to life and defeats an evil mouse king in battle, whisking her away to a kingdom populated by dolls. Australian Choreographer Terence Kohler created this production especially for Hong Kong Ballet. There are a total of 16 performances, and Hong Kong-based Taiwanese actress Annie Liu will make cameo appearances on 14 and 15 December at 7:30 p.m. and 2:30 p.m. respectively.

Dates: 14-16, 19-23, 25-26 December at 7:30 p.m. and 15-16, 22-23, 25-26 December at 2:30 p.m.
Venue: Grand Theatre, Hong Kong Cultural Centre
Ticket price: HK$180 - HK$1,000
Website: *www.urbtix.com*

Fun

IT'S CARNIVAL SEASON

The AIA Carnival makes it fifth return to the city next month. The fun-filled, family-friendly festival will bring back signature hair-raising rides, bumper cars, bouncy castles, parade performances and game stalls with thousands of toys to be won. Those hungry can head to the carnival's European Food Market to sample international food and beverage. Also returning is The Great Circus of Europe, prepared to thrill crowds with its death-defying line-up.

Dates: 14 December - 17 February 2019 (except 11 January 2019)
Venue: Central Harbourfront Event Space
Ticket price: From HK$85 (refer to website)
Website: *www.tgec.asia*

Music

ANARCHY IN HONG KONG

British punk rock band The Professionals, formed by Sex Pistols' ex-band members guitarist Steve Jones and drummer Paul Cook will be performing in Hong Kong. Playing live for one night only, it will be the act's first time playing in the city, and the first performance by any of the original line-up of the Sex Pistols in Hong Kong. They will be joined by post-punk band David Boring and sludge punk group The Tracey Lords.

Dates: 10 December
Venue: Grappa's Cellar, Jardine House, 1 Connaught Place, Central
Time: 7:00 p.m. - 11:00 p.m.
Ticket price: HK$360
Website: *www.ticketflap.com*

The Professionals

Bacon cheeseburger with fries

Eat

BURGER URGES

Five Guys is now open in Hong Kong. The restaurant from the United States brings its original menu of tasty handcrafted burgers to the city. With no freezers installed in its kitchens, it serves 100 percent freshly grilled beef. Offering bacon cheeseburgers, hot dogs and sandwiches, patrons will be able to customize their selection with vegetables such as lettuce, grilled onions, mushrooms, tomatoes, pickles, green peppers, jalapeño peppers, and sauces such as hot sauce, barbecue sauce, ketchup, mustard, relish, or A1 steak sauce. The menu includes its signature french fries and Five Guys Milkshake. It is the chain's first ever branch in Asia.

Address: 1B, G/F – J Residence, 60 Johnston Road, Wan Chai
Price: From HK$55
Opening hours: 11:00 a.m. - 10:00 p.m.
Website: *www.fiveguys.com.hk*

The accountant on your arm

Hong Kong's humorist on the mind-numbing yet interesting uses of today's technology

Technology equals trouble. A reader wrote to me about a girl in the United States state of Arkansas who read a one-liner on the Internet: "When I'm bored, I send a text to a random number saying 'I hid the body, now what?'"

Amused, she decided to try it. She sent a text saying "I hid the body, now what?" to a random number – which turned out to belong to a police officer's phone. You can guess the rest of the story.

People don't think any more. They just do whatever their technology tells them.

Case in point: At a fruit and vegetables shop in Caine Road, I bought 10 items costing HK$2 each.

The teenage cashier did not use her mono-cellular brain to multiply 10 by two. Nor did she take note of the HK$20 note I was thrusting at her.

Instead, she punched the number two into a calculator 10 times over. She lost count halfway and had to start again. And even then, the total she tried to charge me was wrong.

Anyway, so this is why I was a bit doubtful when another reader told me about a product which describes itself as "an accountant on your arm."

This is an "app" (a trendy word which is short for "appalling waste of time") which turns your smart watch into a "portable accountant."

Videos of the product show it doing only one thing: sending an alert every time someone pays an invoice.

This doesn't really qualify it to be called "an accountant on your arm," surely? Unless your definition of an accountant is a person standing by the mail room shouting "Someone paid a bill!" at intervals. Oh, I don't know – at some companies, it probably is.

But the idea of having an accountant on your arm is a good one if someone actually did it right.

Ideally, all chief executive officers should be forced to wear artificial intelligence smart watches which would wait until the wearer discusses any type of spending proposal and then shout in the voice of the chief financial officers: "No! We can't afford it!"

"People don't think any more. They just do whatever their technology tells them."

Actually, I would rather like to have a watch that says those words for my wife and children, unless they are reading this, in which case of course I wouldn't.

But a portable robot accountant would be a good thing.

There's one out-of-office job that accountants always get landed with – and most hate doing. That's dividing up the bills after group meals at restaurants. It's a pain because a) the accountant is off-duty, b) most accountants haven't done mental math for years, and c) there's always one diner who insists on paying only for what they personally consumed.

Technology has a good answer for this one. There's even an app that takes a photo of the menu, where each diner taps the items on the list that he or she ordered – and the accountant in the app sorts out individual bills for every diner (and a tip for the server). Or you could just use your phone's calculator (although not as "social" or "interactive" as an app).

But of course there's one other way of quite literally having an accountant on your arm: you can do it by marrying your business manager. Singer Celine Dion did it and is one of too few musical celebrities whose private and public lives have been long, steady and successful.

See? Girls, don't be fooled by young pretty-boy hunks – she married an old bald guy with glasses, not unlike one of the writers in this magazine.

Meanwhile, technology features in this very publication have often made the point that AI will take over the boring parts of accountants' jobs, leaving them just to do the interesting, challenging stuff.

Like for instance if your client sends you a text message saying: "I hid the body, now what?"

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*