

## Over the moon

New books commissioned by the Institute promote financial management among Hong Kong families

► The Institute wished a happy Chinese New Year to its members with the gift of two books, one for adults and one for children. *May Moon and the Secrets of the CPAs* is a magical story targeted at children aged eight to 12, while *How to Raise a Money-Wise Child* continues the themes but is targeted at parents. Nury Vittachi, columnist in *A Plus* and one of Hong Kong's most famous writers, authored the *May Moon* book, which is available for sale on the internet and in bookstores around Hong Kong.

### Institute in brief

- Tim Lui, a past president of the Institute and tax partner at PricewaterhouseCoopers, has been appointed as founding chairman of the Hong Kong Professionals Advancement Association. The new association aims to provide an exchange of views between professionals in the Mainland and Hong Kong, and further the understanding of mainland China's political and economic development. Current President Paul M.P. Chan was among those appointed as a director of the association.
- Young members have the chance to win an iPod Nano by participating in the Institute's latest survey. The survey is aimed at CPAs aged 35 and below to find out their attitudes on the workplace, career expectations and training.
- Astims CPA Ltd. (力天會計師有限公司) has been removed from the Institute's register of CPA practices with effect from 19 February 2005.
- The Institute notes with deep regret the passing away of its member, Miss Ng Wai Fan.



## CFOs on top

Vernon Moore considers the implications of changing accounting principles for companies' senior management

► The Institute hosted its first CFO forum of 2006 on 11 January, with Vernon Moore, executive director of Citic Pacific Ltd. and Citic (Hong Kong) Holdings Ltd., providing a robust defence of International Financial Reporting Standards (IFRS) to an audience of over 100 leading CEOs and CFOs.

Moore claimed that while the CEO is still responsible for signing off on financial statements, the importance of the CFO role is increasing, especially in American firms where non-executive directors may dominate the board. In particular, new standards imply more trust must be placed in the CFO and company secretary. As Moore put it: "Most CEOs are businessmen and can never be expected to think in terms of the application of financial reporting standards." Nevertheless, Moore believes that in certain areas, for example in deciding on hedging accounting for cash flow or profit and loss, the decision cannot be left to the CFO alone.

Looking ahead, Moore noted: "The next few years will give us the chance to iron out some of the teething problems of IFRS, to address the cost burden and improve their understandability to the reader." Moore is a fellow of the Hong Kong Institute of CPAs and a former member of the Listing Committee of the Hong Kong Stock Exchange.

### Card sharks

► The Hong Kong Monetary Authority (HKMA) has warned local banks to be vigilant about credit card fraud in the wake of recent high profile breaches of security around the world. The HKMA says many banks could do a better job of monitoring processes such as outsourcing arrangements.

### Three is a crowd

► China Hong Kong Power Development's proposals to challenge the duopoly of CLP Power and Hong Kong Electric were unveiled this month. The company has had some interest from industrial and commercial customers, but may be denied access to distribution networks. Meanwhile, the Securities and Futures Commission (SFC) is investigating statements made by technology firm Vertex Communications and Technology, a leading shareholder in the new company. The SFC believes the statements may have been intended to manipulate the stock market, according to a report in the *South China Morning Post*.

### Turn down the volume

► The government has announced it will create a seven-member committee to review public service broadcasting, a move some fear will erode the independence of Radio Television Hong Kong (RTHK). The committee will look at editorial policy, programming and governance.



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### Line by line

▶ U.S.: Thomas Purcell III, chair of the Tax Executive Committee at the American Institute of CPAs, has written to Internal Revenue Service Commissioner Everson Thomas warning that recent changes to the tax code impose a significant burden on the report of capital gains and losses. The instructions require taxpayers to list each capital gain or loss transaction on a separate line.

### Will interpretations never cease?

▶ Global: The International Financial Reporting Interpretations Committee (IFRIC), the interpretative arm of the International Accounting Standards Board (IASB) has released for public comment a Draft Interpretation, *D18 Interim Financial Reporting and Impairment*. It has also released an interpretation on the scope of IFRS 2, clarifying the conditions for application of share-based payment.

### All in the family

▶ Global: The International Auditing and Assurance Standards Board (IAASB) has proposed enhanced obligations for auditors to assess the role and relationship among company directors, owners and management. The proposals could be particularly important to Hong Kong accountants, given the complex ownership structures that exist in many Hong Kong and mainland Chinese companies.

### The Lords prayer

▶ U.K.: KPMG has turned to the British House of Lords as it considers a challenge to a legal ruling over its pensions scheme. The outcome of the case could have a bearing on whether money purchase schemes can be reclassified as defined benefit schemes.

## Tyco's trials

Tyco seeks closure with the past – and perhaps higher stock prices

▶ Shares in Tyco took another tumble in January after the company announced plans to split off its healthcare and electronics businesses, as part of a strategic review. The move is an attempt by the company to fully realise the value of its assets and finally draw a line under the events of 2002, when accounting scandals forced the resignation of then company CEO Denis Kozlowski and CFO Mark Schwartz. However, with the stock continuing to underperform and the company talking down its earnings outlook for the coming year, the legacy of the 2002 scandals continues to hang in the air.

## A tough pension pill

U.S. companies' pensions liabilities could be a problem on Wall Street and with the wider public

▶ With companies such as Verizon, Alcoa, Hewlett-Packard and IBM freezing pension plans and scrapping other benefits, the question of retirement is once again giving concern to workers in the United States. New regulations from the Financial Accounting Standards Board (FASB) are forcing companies to calculate their pensions liabilities

more accurately, but this could be a mixed blessing for employees. On the one hand it gives people a better understanding of how well their employers are providing for their future. On the other hand, it may be forcing companies into unpopular decisions sooner than expected. The FASB expects the reporting changes to be implemented in two phases. First, companies will be forced to recognise the funding status of their pension plans more accurately on the balance sheet. Then, over the next few years, they will have to measure and factor in benefits and costs to their profit and loss accounts.





## EU bankers have one language

Pan-European approach to banking regulation is part of a global trend, driven by IFRS

▶ The Committee of European Banking Supervisors (CEBS) has released guidelines for a standardised Framework for Consolidated Financial Reporting, aligned to the latest International Financial Reporting Standards (IFRS). The framework would apply to all credit institutions operating in the European Union (EU). The CEBS advises the European Commission on banking policy issues, promoting convergence in supervisory practices across the EU, and encouraging consistency in banking legislation. Other regulators, such as the Australian Prudential Regulation Authority (APRA), are taking a similar approach, driven by the changes in accounting standards covering measurement of financial instruments and reserves.

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### Closing the door

▶ Global: Allegations of fraud at Japanese internet firm Livedoor sparked panic selling on the Tokyo stock exchange, forcing its early closure on 18 January. Combined with U.S. stocks including Yahoo! failing to hit earnings targets, the move caused ripples across other world markets.

### Flawed sunrise

▶ Japan: Bank of Tokyo-Mitsubishi UFJ got off to a shaky start on its first day of business, after a systems error halted some online remittance services. The merger between Mitsubishi Tokyo Financial Group and UFJ Holdings was announced last October, and created the world's biggest bank in terms of assets.

### VW drops Proton bomb

▶ Malaysia: Shares of carmaker Proton continued to tumble in January, after Volkswagen scrapped its plans for a strategic alliance with the company. Proton has been struggling to regain profitability since the Malaysian government cut financial support under the terms of a regional free trade pact.

### AIG talks money

▶ U.S.: American International Group (AIG) may pay up to US\$1.5 billion to settle state and federal investigations into suspected accounting fraud. Any deal would be likely to involve a settlement with the New York State Insurance Department and the Securities and Exchange Commission. Last year AIG slashed US\$2 billion from shareholder equity as earnings were restated. The deal would not include a settlement with ousted CEO Maurice Greenberg.

### Check the red lantern

► China's auditor-general, Li Jinhua, has remarked that auditing only income and expenses would not meet the needs of China's economic development. Commenting to a council meeting of the China Institute of Internal Audit, Li encouraged internal auditing bodies to help supervise an enterprise's operating activities, risk management and internal controls.

### Schroders gets short shrift

► U.K. fund manager Schroders' joint venture mutual fund with Bank of Communications unloaded 49 percent of its assets in Q4 2005. A report in *The Australian* attributes the drop to *guanxi* clients who withdrew their funds shortly after the fund launched, as they had no real interest in the investments.

### High and dry

► Agricultural Bank of China recently announced that its operating profits rose 32 percent in 2005, despite non-performing loans standing at over 20 percent of assets. The Agricultural Bank is the only one of the four state banks not to have received a government bailout and is not planning an initial public offering (IPO).

### Money to burn

► China's foreign exchange reserves rose 34.3 percent on annualised basis to an estimated US\$818.9 billion, according to the People's Bank of China. Expectations are that China's foreign exchange reserves will reach US\$1 trillion in 2006, surpassing Japan as the world's largest foreign exchange reserve.

### Cross-strait auditing

► Taiwan's government introduced a plan to audit Taiwanese firms operating in mainland China. Taiwanese premier Frank Hsieh said the government plans to hire accountants to follow audit systems similar to those applied by the U.S. and Singapore. Although the government denies any change in cross-strait policy, some business people believe the measures may restrict or deter some cross-strait investment in the future.

## Mainland news

# Tax targets

Foreign-invested firms could be facing closer scrutiny from China's tax watchdogs in 2006

► The *Shanghai Daily* has reported that China will get tougher this year on tax offences by foreign-invested firms, and target the real estate, construction, finance, insurance, entertainment, telecommunications, coal production, transport and waste disposal sectors.

Cui Junhui, vice director of the State Administration of Taxation, said tax authorities would target these industries for special inspections. He noted that fake invoices and falsified accounting statements were the most common means for violating tax obligations. Larger firms would be scrutinised by national officials, while local governments would handle smaller firms.

The announcements come amid pressure from domestic firms to even the tax burden between foreign funded and domestic firms. Cui also noted that Chinese tax departments recovered nearly Rmb36 billion (US\$4.5 billion) in unpaid taxes last year.

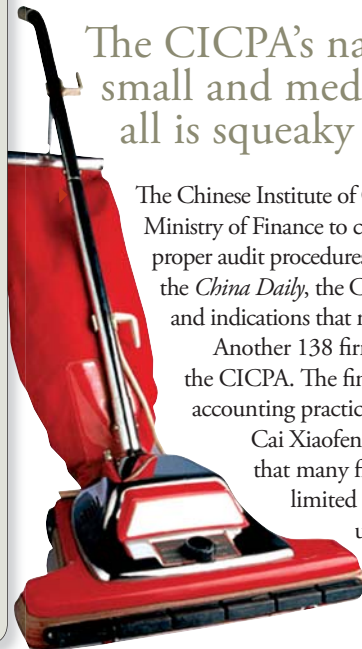
## Spring-cleaning comes early

The CICPA's nationwide investigation into small and medium-sized practices shows not all is squeaky clean

The Chinese Institute of CPAs (CICPA) revealed in January that it would ask the Ministry of Finance to close down 73 accountancy firms that have failed to follow proper audit procedures or given incorrect conclusions. According to a report in the *China Daily*, the CICPA also found evidence of bribe taking and kickbacks, and indications that many firms were not properly controlling their staff.

Another 138 firms and 138 certified accountants were criticised by the CICPA. The findings are the result of a four-month investigation into accounting practices with a particular focus on small and medium practices.

Cai Xiaofeng, director of the general office of the CICPA, noted that many firms had very poor risk-control standards, citing limited resources and low expertise. This, in turn, resulted in unreasonably low fees, fierce price competition and low quality. The CICPA is preparing new training programmes to clean up the profession.



# Plan B for China's stock markets

## China's stock exchanges look ready to switch gears

▶ Shanghai Stock Exchange executive vice president Zhou Qinye has indicated overseas-traded Chinese companies may be free to list in China within the next three months. The move would be a turnaround for Chinese authorities; in May 2005 they stopped new share issues in a bid to support the Shanghai and Shenzhen bourses, which are dominated by China's state-owned enterprises.

China's stock markets have underperformed since last year's cessation. Zhou emphasised that initial shares sold on the exchanges would be "good quality companies, namely blue chips."

Zhou also noted that the stock exchange was considering letting Chinese companies convert foreign currency-denominated B shares into yuan-denominated stock. Initial interest in the B share market, which was supposed to allow Chinese companies to raise foreign currency, waned quickly as companies sought to list overseas. However, talk of a merger between the A share and B share markets has caused the Shanghai and Shenzhen B share index prices to surge.

