



>> The new president, flanked by Carlson Tong (*left*) and Mark C. Fong (*right*)

Sworn into office

There are some new faces to take the Institute forward in the Year of the Dog

► Hong Kong CPAs have elected their Council and president for 2006. The new line-up was announced after the Institute's annual general meeting on 16 December. In addition to seven newly elected members, John Poon, group CFO and secretary of Esprit Holdings, joins as one of the Council's four lay members. Paul M.P. Chan of Paul Chan & Partners will serve as president while Mark C. Fong of Moores Rowland Mazars and Carlson Tong of KPMG will serve as vice presidents.

Hong Kong Institute of CPAs' Council 2006

President

Paul M.P. Chan

Newly elected (practising)

Albert S.C. Au
Mark C. Fong (vice president)
Keith Pogson

Newly elected (non-practising)

Patrick K.W. Chan
Susanna Chiu
Wilson Fung
Ronald Kung

Immediate past president

Edward K.F. Chow

Continuing term (2005 and 2006)

Dr. Cho Lung Pui Lan, Stella
Doug Oxley
Carlson Tong (vice president)
Tsai Wing Chung, Philip
Paul F. Winkelmann
Amy W.S. Yung

Government-appointed lay members

Sir C.K. Chow
Paul M.Y. Chow
Sophia Kao
John C. Poon

Ex-officio members

Gordon W.E. Jones
Lucia Li

Narrow vote

The issue of constitutional reform proves divisive for the profession

▶ On 21 December the Hong Kong government failed to get sufficient support for its proposals on constitutional reform and the selection of the 2007 chief executive. Mandy Tam, the accounting profession's functional constituency representative, was among those who voted against the proposals. Prior to the vote the Institute conducted a poll of its members, in which 27 percent described the government's proposals as "acceptable," while 31 percent described them as "not entirely satisfactory but acceptable" and 42 percent described them as "unacceptable." Among the 2,697 respondents to the poll, 54 percent called on LegCo representative Tam to vote for the reform package.



An ethical tone

New framework comes into effect in June

▶ The Institute has announced a new code of ethics to align Hong Kong's standards with those of the International Federation of Accountants (IFAC). The principles-based code, which will be effective from 30 June, requires accountants to base their performance on standards of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. As outgoing president Edward K.F. Chow puts it, "Hong Kong's professional standards now represent the best thinking and the best practices from the world's foremost accounting bodies."

Institute in brief

Marvin Cheung, a past president of the Institute, has been appointed a trustee of the International Accounting Standards Committee Foundation, while **P.M. Kam**, group financial controller for Jardine Matheson Ltd. and also a past president, takes Cheung's place on the Standards Advisory Council of the International Accounting Standards Board (IASB).

On 9 December 2005, the Institute's top executives held an all day **symposium with small and medium practitioners (SMPs)**, to outline the Institute's plans for the future. A question and answer session gave SMPs the chance to discuss the new practice review approach and voice their concerns face-to-face with Council members. In addition, participants were treated to presentations geared to the business needs of SMPs.

Michael Chan Kee Huen has joined the Institute as director, Quality Assurance, with effect from 1 December 2005. Tony Harrod, head of Compliance and General Counsel, and Patricia McBride, director for Standard Setting, have also filled new executive positions at the Institute during the past year.

Throw out your toys

▶ Hong Kong listed manufacturer Playmates Inc. saw its stock price tumble by ten percent after PricewaterhouseCoopers stood down as auditor on 12 December. PwC claimed the company had opposed requests for more information that it needed to conduct full risk assessments.

Link REIT no treat

▶ The Securities and Futures Commission tightened disclosure requirements on Real Estate Investment Trust (REIT) shareholders by reducing the threshold for disclosure of large holdings from ten percent to five percent. The SFC has also released proposals to create a fairer derivatives warrants market, giving the public until the end of this month to comment.

Crisis cases

▶ A survey by Grant Thornton has revealed that 33 of the 88 Hong Kong-listed companies running into financial distress between 1997 and 2005 ended up in liquidation, often after failed restructuring attempts. Alan Tang, partner at Grant Thornton, said the results of the survey indicated that many companies don't have the capital buffers to deal with crises.

Protest of one

▶ One of Hong Kong's most vocal accountants, the free trade advocate Simon Patkin, showed his support for the World Trade Organization on 10 December with a one-man protest outside a McDonalds outlet. Patkin gave a guarded welcome to the outcome of the ministerial meeting, noting, "The deal was something to work with, but I think the more important thing is that people from developing nations got a look at Hong Kong and realised what is possible when you implement free trade."

news digest the world

Big Four seek protection

▶ The Big Four are attempting to minimise their exposure to liability lawsuits by requiring new clients to sign waiver agreements, according to a news report by Bloomberg. These arrangements are attracting the ire of corporate watchdog groups who are convinced they will reduce vigilance among the firms.

Seeing clearly now

▶ Research from the Institute of Chartered Accountants in England and Wales shows that fund managers' confidence in audited financial information has been boosted by tougher standards. The report claims 75 percent of fund managers expect International Financial Reporting Standards to have a positive effect on the quality of audited financial information.

Texas on top

▶ *The Public Accounting Report* recently ranked the University of Texas McComb's School of Business as the best place in the United States for accounting education, for the eleventh time.

Ringgit link

▶ The Hong Kong Monetary Authority and the Bank Negara Malaysia have agreed to set up a large-scale, real time payment system to reduce foreign exchange settlement risks. The link is the first of its kind in the region and expected to increase the efficiency and safety of transactions from Malaysia.

Investor fallout for Deloitte

▶ A group of large investors in auto-parts maker Delphi Corp. are petitioning to remove the company's current auditors, Deloitte. Delphi filed for bankruptcy protection in October and has come under investigation by the Securities and Exchange Commission and the Department of Justice. It has admitted a number of accounting violations.



TASOS KATOPODIS - GETTY IMAGES NEWS

Blacker and blacker

▶ Conrad Black, former CEO and chairman of Hollinger International, will face additional charges on top of the eight counts of fraud already brought against him. Included in the indictment are charges of racketeering, money laundering and obstruction of justice. On 16 December Hollinger reported a loss of US\$34.1 million for first half of 2005.

PCAOB can't fill its boots

U.S. watchdog may struggle to fulfil duties without more manpower

▶ The Public Company Accounting Oversight Board (PCAOB) has announced it will cut its budget for 2006 by 20 percent, as it struggles to hire sufficient qualified staff. The Sarbanes-Oxley watchdog's outlays have been less than expected for two successive years after failing to expand its workforce to its stated target of 450 employees. The PCAOB's expenditures in 2005 totaled US\$136 million, below its planned spend of US\$153 million. It expects to charge publicly traded companies just \$109 million in 2006, down from \$136 million in 2005. The PCAOB was ten percent short of its personnel target at the end of 2005.

SEC offers exit strategy

But the commission hopes for more listings as a result

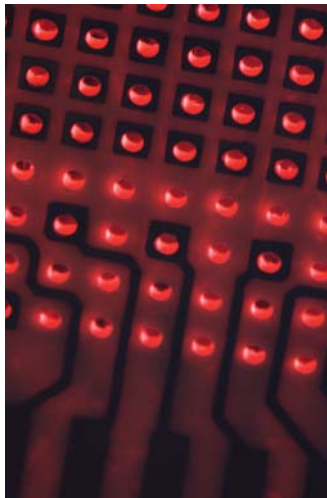
▶ The United States' Securities and Exchange Commission has proposed new rules making it easier for foreign companies to de-list from U.S. stock exchanges. The move aims to give companies a more practical alternative to the expensive process of complying with Sarbanes-Oxley and other securities laws. The SEC hopes the move will actually encourage more companies to list in the U.S., since it would be easier for those companies to de-list if necessary.

The proposed rules would allow a company to de-list if less than five percent of a company's trading volume takes place in the U.S., and if less than ten percent of the shares are owned by U.S. citizens. SEC officials stated that the proposed changes would apply to up to two-thirds of foreign companies listed in the country.

Definition of network firms

Firm definition could have implications for Big Four

▶ The Institute has responded to a new exposure draft from the International Federation of Accountants (IFAC) on the definition of a network firm. IFAC's proposals determine that network firms be independent of an audit client of a firm within their network. The definition of a network firm includes any firm that shares a common brand. The change could have an effect on the way big firms operate and be a consideration in the way they structure and market their services in the future. Firms will need to review whether they meet the independence requirements for non-assurance services they provide to their assurance clients.



Special standards for SMEs

▶ The International Accounting Standards Board (IASB) has expressed its support for the simplification of certain accounting standards when applied to small and medium-sized entities (SMEs). The board called on the staff of the IASB to review all standards and determine which ones are relevant to SMEs.

Not waltzing yet

▶ Macquarie Bank, which was the latest in a line of firms bidding for the London Stock Exchange, had its bid quickly and decisively rejected. LSE shareholders said the offer represented a discount to its trading price. They criticised the bid, which came just before the 15 December deadline, for the lack of experience in its proposed management lineup.

Lighter touch from chancellor Brown

▶ British chancellor Gordon Brown tried to mollify criticism of his budget by scrapping the government's Operating Financial Review (OFR) programme, only months before implementation. Brown claimed the review, which would have obliged companies to report on environmental and social strategies, threatened to create too much red tape for smaller businesses.

Fearful not tearful

▶ Ahead of his trial this month, former Enron CEO Ken Lay spoke out at a Houston forum, oddly claiming that he was a "victim of terror." He then blamed the company's collapse on former CFO Andrew Fastow.

BlackBerry prayer

▶ BlackBerry addicts across the U.S. are nervously following the patent case against the device's manufacturer, Research in Motion. U.S. courts have already recognised some patent infringements and won't rule out stopping BlackBerry service. A final verdict is expected early next month.

news digest »»china

A new offering for Mainland investors

▶ China Development Bank and China Construction Bank Corp. have sold their first asset-backed securities to institutional investors. China Development Bank's securities are underpinned by loans to state owned companies, while those of China Construction Bank are tied to residential mortgages. Although the bonds were priced below expectations, both banks expect more issues in the years ahead.

Shelling out

▶ Shao Ning, vice director of China's State-owned Assets Supervision and Administration Commission, has predicted that state-owned parent companies of listed firms will slowly become shell companies. Shao also noted that many parent companies have moved high-quality assets to be part of listed firms. The comments were reported in the *China Securities Journal*.

An oily grip

▶ CNOOC Ltd., the listed subsidiary of the China National Offshore Oil Corp (CNOOC) is seeking to amend its parent's exclusive right to participate in production sharing contracts on discoveries made by foreign partners.

Consumers on the march

▶ Government output figures for November show a rise in domestic consumer demand is helping to counterbalance a slowdown in export growth. Factory output saw year-on-year growth of 17 percent.

Fever pitch

▶ Citigroup, Société Générale and a consortium that includes ABN Amro have all presented rival bids of over US\$1 billion for Guangdong Development Bank. The bidders are jostling to be the first foreign investor with a majority stake in a mainland Chinese bank.

A chance to trade

▶ China shed its traditionally quiet role in the World Trade Organization at last month's ministerial meeting, when Commerce Minister Bo Xilai claimed the country was one of the biggest victims of unfair anti-dumping regulations in the United States and Europe.



Great strides

No let-up in China push

▶ The big accounting firms are set to continue their push into China in 2006. PricewaterhouseCoopers has announced it will hire 1,500 new staff in Greater China over the next year and promises to focus on its financial services practice, while KPMG has launched a new division, KPMG Advisory (China) Ltd., to be based in Hangzhou. The firm will provide tax advisory, financial advisory and business advisory services to firms operating in Zhejiang province and the wider Yangtze River Delta region. The recruitment drive should be good news both for graduates entering the profession as well as existing employees hoping for new opportunities for travel and career development.

Tech firms booming

Beijing companies challenge southern counterparts

▶ Deloitte's inaugural Technology Fast 50 China programme has identified the fastest growing companies in the tech sector from around China, with a surprising 40 percent of the winners originating in Beijing. The capital surpassed rival cities Shanghai and Shenzhen in the awards, although both were also well represented. The 50 winning companies achieved average three-year revenue growth of 1,123 percent. Communications and networking firms were the biggest winners followed by the internet, software and semiconductor sectors. The majority (83 percent) expected their future growth to be driven by China and other Asia Pacific markets.



JPMorgan is raising its growth outlook for several key markets in 2006, including the United States and Japan. This is creating an optimistic picture for many Asia Pacific stock markets.

Outlook for equities in the Year of the Dog

JPMorgan's 2006 index targets

	Current index	End 2006 target	Target return
Taiwan (TWSE)	6,264	7,500	20%
Hong Kong (HSI)	14,911	16,700	12%
Thailand (SET)	698	780	12%
China (H Share)	5,175	5,650	9%
India (Sensex)	9,067	9,900	9%
Indonesia (JCI)	1,160	1,250	8%
Singapore (STI)	2,321	2,500	8%
Malaysia (KLCI)	898	960	7%
Korea (KOSPI)	1,317	1,400	6%
Australia (ASX 200)	4,580	4,720	3%

Source: JPMorgan

Tighter monetary policy unlikely to derail growth

JPMorgan believes deflation is on track and domestic savers are starting to move back into equities – even as global cyclical factors threaten to drive the risk premium for equities higher. Hong Kong is tipped to be among the strongest performers this year, with the bank targeting a 12 percent return on the Hang Seng Index.

Ironically, a benign macro-economic and earnings outlook for 2006 means higher risk to country asset allocations calls. Asian central banks and governments continue to have significant policy flexibility, but JPMorgan recommends keeping a close eye on currency and monetary policy. Investors should favour countries that allow currency appreciation while keeping real interest rates low. JPMorgan projects a U.S. dollar return of 12 percent for the MSCI Pacific ex Japan and 24 percent for MSCI Emerging Asia. Excluding the currency appreciation kicker, JPMorgan reckons the returns will be five percent and 12 percent respectively.

Emerging markets equity strategy

JPMorgan has raised their Fed funds target to five percent for May 2006. They point out that even though this creates a more challenging environment for emerging markets, it doesn't mean they should be avoided. Many emerging markets are dependent on main market funding, meaning borrowing costs are higher – but some are now finding it easier to fund in local markets.

Despite the tightening of U.S. monetary policy, JPMorgan is promising to broaden its emerging market strategy, citing improving fundamentals and supportive liquidity. Areas of expansion include emerging Europe (including Turkey) and Russia.