

Institute goes for GEM

▶ The Institute has submitted a paper to the Hong Kong Exchanges and Clearing Co. in response to its consultation on the Growth Enterprise Market's development. The Institute maintains that GEM has a legitimate role as a place for small- and medium-sized enterprises to raise capital. However, the Institute notes that more needs to be done about ensuring the quality of listings.

Time well spent

▶ A student readership survey conducted by the Institute's Student Education and Training Department found that 28 percent of respondents said they read the contents of *A Plus* in full.

The survey was taken in April 2006 and polled 679 respondents. The Institute is planning to conduct a more comprehensive readers' survey of the magazine later this year.

Corporate governance

▶ More than 100 Institute members joined HKSAR Director of Audit Benjamin Tang, legislator Emily Lau and Tung Wah Group of Hospitals Chief Executive William Ho for the Institute's continuing professional development programme on corporate governance for public bodies and non-profit organisations on 8 June.

Mainland seminar

▶ The Institute and the Hong Kong Trade Development Council organised a seminar on mainland labour law on 20 June. At the seminar, Guangdong officials presented on issues of accidental insurance, salary, working hours, recruitment, employment contracts, social security and labour disputes.

New office!

▶ The Institute's secretariat will complete its move from Lippo Centre, Admiralty, to 27/F, Wu Chung House, Wanchai in July. The facilities at the new 25,000 square-foot office will include a spacious lounge, auditorium, meeting rooms and research library. Watch for more details about the grand opening scheduled for late July.



>> The Institute's directors inspect the new office site in Wu Chung House

Paul Chan meets Hong Kong Chief Executive Donald Tsang

Institute President Paul Chan discusses the Closer Economic Partnership Arrangement and the 11th Five-Year Plan with Donald Tsang

▶ Hong Kong Institute of CPAs President Paul Chan joined other professionals and met with HKSAR Chief Executive Donald Tsang to discuss opportunities arising from the Closer Economic Partnership Arrangement (CEPA) and China's 11th Five-Year Plan.

Chan discussed several points with Tsang, including the possibility of extending the mutual examination paper exemption to non-qualification programme members and allowing Hong Kong and mainland firms to form associations.

Chan also brought up the issue of liability reform, and Tsang responded positively to some of his suggestions at the 30 May meeting.

Tsang says the government will help professionals explore new niches in the mainland by increasing the scope of CEPA and expanding a network of professional services between Hong Kong and China.

Accounting student captures “Bus Uncle”

▶ When Elvis Ho told Chan Yuet-tung to quiet down on his mobile phone during a ride on the 68X bus from Jordan to Yuen Long, nobody knew that an international sensation was in the making.

The incident, in which the two had an animated argument, was filmed on a mobile phone by 21 year-old accounting student Jon Fong, according to media reports.

The resulting “Bus Uncle” video has now been downloaded millions of times from YouTube.com, with Chan’s “I have pressure” and “this has not been resolved” exclamations becoming some of the hottest phrases on Hong Kong’s streets, spawning tribute songs, spoof videos and tee-shirts.



CPA dragon boat success

▶ The Institute’s dragon boat team was the first runner up in the Discovery Bay races in May, and followed up the achievement several days

later with a respectable sixth place in the Professional Championships at the Hong Kong International Dragon Boat races.

“This year the team spirit is particularly high. We started training in early March and new members performed very well,” says Yale Leung, chairman of the Institute’s Water Sports and Hiking Interest Group. Congratulations to all CPA paddlers.

Deloitte punished

▶ Deloitte & Touche Corporate Finance has been banned by Hong Kong’s stock exchange from sponsoring new listings for nine months for due diligence failures on the now defunct e-commerce company Codebank, local media reported. Deloitte failed to disclose some overdue and unpaid obligations in Codebank’s listing document when it sponsored the firm’s stock offering in December 2001, among other due diligence failures, the *South China Morning Post* quoted the exchange as saying. Deloitte will be unable to sponsor any listings on both the main board and the Growth Enterprise Market and its principal supervisor Lawrence Chia will be banned from working any sponsorship mandate for six months, the Securities and Futures Commission said. Codebank was delisted in January last year.

Government powerless over PCCW

▶ The government has expressed concern over a bidding war involving PCCW’s telecommunications and media assets, according to news reports. Australia’s Macquarie Group and the U.S.’s Texas Pacific Group are among the bidders.

Although the government has expressed worries over security issues, Hong Kong does not have rules to limit foreign ownership in telecommunications.

SFC split

▶ The Hong Kong Legislative Council passed a bill in June to make Martin Wheatley, current SFC chairman, chief executive of the regulatory body. It proposed to let the government choose a part-time, non-executive chairman to replace Wheatley. Opponents claim this will open the way for the government to tamper with the SFC, while supporters say this is in line with corporate governance best practice.

Hong Kong gets A-share

▶ JF Asset Management announced in June that it would launch the first Hong Kong-listed A-share fund, allowing local investors to cash in on China’s A-share market. It is the first such fund authorised by the SFC to invest in China via the Qualified Foreign Institutional Investor quota.

Property pullout

▶ Real estate developer Shui On Land

scrapped its planned listing on the Hong Kong stock exchange in June. The company cited poor market sentiment as the reason for cancelling the flotation, the second one in two weeks after Hong Kong billionaire Lee Shau-kee scrapped a US\$500 million IPO for his Sunlight Real Estate Investment Trust because of concerns about interest rate hikes and after the Chinese government recently stepped up efforts to cool its property market. The combined offerings had been expected to fetch US\$1.5 billion.

Salary trends

▶ Accountants switching to finance roles can expect an eight to 10 percent pay rise, while only specialised positions like internal audits can command bigger salary hikes of around 20 percent, a 2006 mid-year recruitment trend survey finds. The report – released by recruitment firm Ambition – also finds that turnover is decreasing as employee expectations rise. Many Hong Kong accountants who took positions in the Pearl River Delta a few years ago are now keen to return to Hong Kong, it says. While Beijing and Shanghai remain popular destinations, posts in southern China are hard to fill, the report says.

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Corruption probe

▶ The head of a Chinese property developer was being questioned by authorities in connection with a former Beijing vice mayor's corruption probe, state media reported. Liu Xiaoguang, president of state-owned Beijing Capital Group and chairman of its Hong Kong-listed subsidiary Beijing Capital Land, was cooperating with the Central Commission for Discipline Inspection on an investigation into former vice mayor Liu Zihua, *Shanghai Daily* reported. Liu, in charge of infrastructure projects for the 2008 Olympic Games, was arrested in June on graft charges. Shares of the company, dubbed "the landlord of Beijing," have been suspended from trading in Hong Kong.

Risk awareness

▶ The State-owned Assets Supervision and Administration Commission released a guideline last month, advising state-owned enterprises to set up a risk management commission, *China Daily* reported. The guideline includes an overview of the principles and evaluation of risk management. The move came in a bid to prevent a recurrence of the China Aviation Oil Singapore case, the largest scandal involving a Chinese SOE listed overseas.

Retail growth

▶ The long-awaited growth in China's domestic consumption may now be happening. China's National Bureau of Statistics reported that retail sales in May increased by 14.2 percent, the fastest growth in 18 months, following a 13.6 percent increase in April. Beijing has introduced measures such as tax breaks to boost domestic consumption.

Labour pains

▶ In the biggest shake-up yet on China's employment regulation, Beijing is planning to introduce tougher labour laws to prevent worker exploitation, *The Times* of London reported. The bill – to be tabled before the Chinese People's Congress soon – includes regulations on reducing maximum working hours and increasing wages for overtime work, some of which exceed even European standards, the report said. The European Chambers of Commerce warned that the bill would increase production costs in China and cause foreign investors to move to rival Asian nations for manufacturing.

Consolidation on the cards

Chinese accounting firms to undergo more mergers to boost competitiveness

▶ Chinese accounting firms are expected to undergo more market-driven mergers and acquisitions to tackle growing competition from foreign firms, *China Daily* reported, quoting a senior finance official.

Chinese Vice Minister of Finance Wang Jun said he hopes consolidations in China's more than 5,000 accounting firms will make them more competitive, leading to the formation of larger firms with the ability to provide a full range of services to domestic enterprises, the report said.

"I think the reshuffle should be driven by market demand instead of administrative orders," Wang was quoted as saying during a recent forum organised by the Chinese Institute of CPAs.

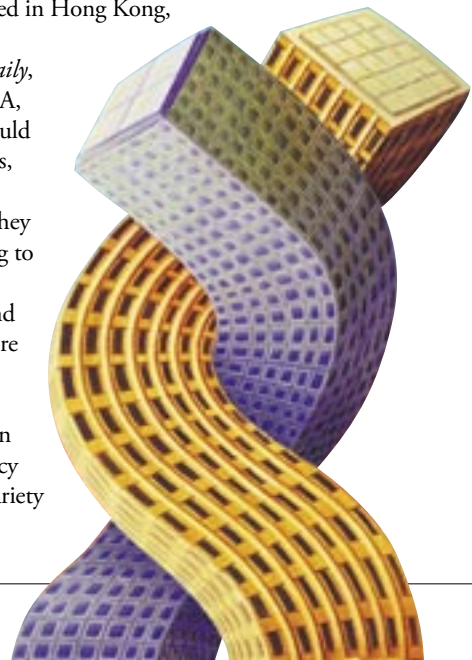
Many Chinese companies are seeking listings in overseas markets amid China's booming economy, but they are turning to foreign accounting firms instead of domestic ones. Wang's comment came as Beijing encourages the growth of local Chinese accounting firms to reduce the country's reliance on the Big Four, which monopolise the auditing for mainland companies listed overseas, according to a report in the *Financial Times*.

"As Chinese companies list abroad, we also hope the Chinese audit firms can go global too," Liu Yuting, director general of the Ministry of Finance's accounting regulatory department, told the newspaper.

But observers think it will take years before homegrown Chinese firms, which provide auditing services to a very small number of the 348 mainland companies now listed in Hong Kong, can compete against the Big Four.

In an interview with *China Daily*, Liu Zhongli, director of the CICPA, said Chinese accounting firms should explore more services and products, adding that the limited range of services they provide now is why they fail to attract big clients. According to the CICPA, China now has 5,639 accountancy firms, but only around 100 have an annual income of more than US\$2.5 million.

The CICPA has enacted rules against such tactics as price wars, in the hope that domestic accountancy firms will focus more on service variety and quality.



Overheating fears still loom

► Recent efforts by Beijing to cool an overheating economy appear to have failed, as official statistics showed fixed assets investments rose by more than 30 percent in the first five months of 2006, a substantial increase over the same period last year.



Yuan Gangming, a China Academy of Social Sciences economist, said Beijing should step up measures to cool down the economy, particularly in the areas of fixed asset investments and exports.

“Excessive economic growth has continued over the past five months, showing no signs of cooling down,” Yuan said in an interview with *China Radio International*. China targets an eight percent gross domestic product growth for 2006, but the economy grew by 10.3 percent in the first quarter alone.

Fears of over-investment leading to a sharp economic contraction have prompted Beijing to introduce macro-economic controls to tighten China’s money supply. In April, the central bank raised the minimum rate commercial banks charge on one-year loans to discourage lending. The central bank now requires domestic lenders to buy multi-billion yuan bills it issued in another effort to decrease commercial banks’ lending abilities.

The central bank had originally targeted a total lending amount of US\$313 billion in 2006, but lending in the first five months has already reached US\$250 billion, according to the *CRI* report. Economists are urging the government to use both administrative and exchange rate measures to cool down the economy, especially the real estate market.

Open for business

► CAMC Engineering, a Beijing-based contractor, made a strong debut in June as the first company to list in China since the China Securities Regulatory Commission re-opened the Shanghai and Shenzhen stock markets for initial public offerings after a yearlong hiatus.

Buoyed by strong investor interest, the company quadrupled its share price to 31.97 yuan on its first day of trading on the Shenzhen stock exchange on 19 June, media reports said. However, the stock price fell by 10 percent per day – the maximum daily limit – for the next two days as speculators reaped rewards.

Initial stock offerings were halted in Chinese stock markets in May 2005 to allow for market reforms. The suspension has led to a pent-up demand for stock investments in the mainland, but analysts warn that newly listed shares are often volatile. The list of firms preparing for IPOs in China is growing, including the Bank of China, which hopes to raise US\$2.5 billion in an initial offering set for 5 July.

Flexible Shanghai

► China’s biggest bourse, the Shanghai Stock Exchange, announced its plan to relax limits on the maximum degree of fluctuations allowed on daily share-price movements from 10 percent to 20 percent on its largest listed companies. The exchange also wants to end a ban on same-day buying and selling of shares to curtail rampant share speculation.

Cashing out

► In a move to offset the rapid growth of its foreign exchange reserves and excess liquidity, Beijing has scrapped quotas on purchases of foreign currency by companies wishing to invest abroad. Economists say the move is an important step towards liberalising capital accounts (see China foreign currency feature on p.52).

Insurance tie-in

► China’s insurance industry regulator announced in June that it would start letting the country’s insurers buy stakes in China’s banks. Wu Dingfu, head of the China Insurance Regulatory Commission, said they “support insurance companies to buy into, or even take controlling stakes, in well-managed, profitable banks that have a strong customer base.” According to *Reuters*, Ping An Insurance has received initial approval from the regulator to buy a 60 percent stake in Shenzhen Commercial Bank for US\$500 million.

IFAC-China exchange

► More Chinese finance officials and accountants will take part in exchange programmes with the International Federation of Accountants, IFAC President Graham Ward announced during its board meeting in Beijing. Ward noted that this should speed up China’s convergence with international accounting standards.

Another bank, another IPO

► The China Postal Savings Bank, a new financial institution created by spinning off the savings arm of the national postal system, is seeking an IPO for early 2007, the *South China Morning Post* reported. Investors may be attracted by the bank’s lack of bad lending practices that have plagued older lenders, the report said.

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Tax blitz

▶ German Finance Minister Peer Steinbrück proposed to slash profit tax rates on German firms to 30 percent from 39 percent by 2008, the *Financial Times* reported. But other European Union countries fears such reforms would cause "tax competition" among member states.

Exposing private parts

▶ The American Institute of Certified Public Accountants and the Financial Accounting Standards Board announced a joint proposal to explore the development of accounting standards for privately held companies. The initiative will involve seeking feedback on proposed enhancements to the FASB's standard-setting procedures and determine whether the board should consider differences in accounting standards for private companies within Generally Accepted Accounting Principles.

Wall Street back in Washington

▶ U.S. President George W. Bush named Henry Paulson, chairman and CEO of Goldman Sachs, as U.S. treasury secretary. Paulson has previously said he supports the economic policies of the Bush administration, but that he was troubled by trade and spending deficits. However, he has also said that deficit spending to ensure growth is better than no deficits and no growth.

In China's footsteps

▶ Russian President Vladimir Putin has said that Russia could sign the World Trade Organisation protocol by July, possibly before the upcoming G8 meeting to be held in St. Petersburg on 15 July. The country's attempt at WTO membership has been thwarted by the U.S., the only member of the world trade body opposing Russia's entry. American negotiators continue to question Russia's human rights record, intellectual property protection and state control of energy resources.



SPENCER PLATT/GETTY IMAGES

>> A tour group walks past NYSE, which has offered US\$10 billion in cash and shares for Euronext in a planned merger.

A global exchange

The merger of NYSE Group and Euronext poses questions for regulators and competitors

▶ The New York Stock Exchange Group and Euronext announced in June a planned merger valued at approximately US\$10 billion, news reports said. The combined exchanges will be known as NYSE Euronext and will be the first trans-Atlantic stock exchange, with a market capitalisation of approximately US\$20 billion and will trade securities totalling US\$27 trillion. John Thain, current CEO of NYSE Group, will be chief executive of the new exchange, with Jean-Francois Theodore, current head of Euronext, serving as deputy chief executive.

Thain has made clear in several interviews that one of the primary concerns is to compete for new IPO business from emerging markets, much of which has dried up in the U.S. – due in part to the effect of the Sarbanes-Oxley legislation. The primary competitor for such listings is the London Stock Exchange, which has been the focus of several bids by other bourses. NYSE Group previously expressed interest in the LSE, but was beaten to the punch by NASDAQ, which has since acquired a 25 percent stake in the London exchange.

If NYSE Euronext is unable to secure a significant share of international listings from the LSE, Thain told the *Financial Times* it would consider acquiring the LSE or setting up a new London-based exchange to rival it.

Regulatory issues, however, could pose problems for NYSE Euronext. The Securities and Exchange Commission and NYSE Group have been playing down the potential for SOX to affect companies listed in Europe. But the need for maintaining independent regulatory regimes may still cause difficulties in achieving the positive effects from combined liquidity.

Hearing aids

U.S. Senators get an earful on “smoothing” pension deficits

▶ Two of the world’s top accounting standard-setters lectured U.S. senators on the dangers of “smoothing” pension deficits – manipulating earnings figures on pension trusts to make overall liabilities look like profits – when they testified before the U.S. Senate’s Banking Committee, *CFO* magazine reported.

International Accounting Standards Board Chairman Sir David Tweedie and Financial Accounting Standards Board Chairman Robert Herz strongly defended their view that the smoothing of pension deficits in fact creates more financial danger for companies. Several corporations have come out against reforming pension accounting and some U.S. senators have voiced fears that a radical overhaul might induce companies not to offer pensions at all.

Tweedie was particularly harsh on the practice. After describing the way in which the smoothing process worked, he commented that the final figure “doesn’t mean a thing.” Herz was slightly more moderate but he did sternly criticise the use of an assumed rate of return in calculating the future returns on pension assets, according to the report.

The testimony of the two men came amid continuing wrangling in the U.S. Congress over the issue of corporate pension fund deficits. Both the IASB and the FASB have initiated projects to deal with pension fund accounting and they hope to have standards reconciled in three to five years.



>> IASB Chairman Sir David Tweedie testifies before the U.S. Senate.

MANNY OENETAL GETTY IMAGES

A question of ethics

The ICAEW revamps its code of ethics

▶ The Institute of Chartered Accountants in England & Wales has published a new code of ethics to provide practical guidance for its chartered accountants on the application of ethics in their daily work. ICAEW President Ian Morris was quoted by *Accountancy Age* as saying that the revised code would address practical issues and ensure integrity, objectivity, and competence.

World Cup 0, Taxman 1

▶ Blick Rothenburg, a U.K. tax specialist firm, warns of a potentially hefty tax bill to U.K. companies and their employees holding World Cup parties, *Accountancy Age* reports. The firm notes that employers must declare hospitality to customs if the cost per worker amounts to more than US\$273 over the course of the year, and the cost of World Cup celebrations may take some workers over the limit.

SEC online

▶ The Securities and Exchange Commission (SEC) in the U.S. announced in June that the full text of every SEC document filed by companies in the last two years can now be searched online. Investors and analysts can now easily locate mutual fund filings by fund or share class. SEC Chairman Christopher Cox called the service a “giant leap forward” in terms of providing investors with custom information.

AIMing higher

▶ The Alternative Investment Market, the secondary market of the London Stock Exchange, is planning to recruit more accountants to boost regulatory compliance in the natural resources sector. The move came after AIM, known for its lax regulatory requirements, suffered several high-profile collapses in the sector. The strengthened team will conduct more compliance visits to the nominated advisors of companies and may also be involved in plans to monitor share trades more closely.

PCAOB gets new head

▶ Mark Olson, a U.S. Federal Reserve board governor, has been named head of the Public Company Accounting Oversight Board. Olson, a former partner of Ernst & Young, replaces interim chairman Bill Gradison. During his tenure at the Federal Reserve, Olson, 63, chaired the board’s Committee on Consumer and Community Affairs, and served on the Committee on Supervisory and Regulatory Affairs.

Poor wealth managers

▶ More and more U.S.-based wealth managers are feeling the pinch from increased competition and commoditised product offerings, reports *InvestmentNews*, a weekly newspaper for financial advisors. Adding pressure on wealth managers’ margins is the increasing financial savvy of their clients. More firms are trying to cope by providing extra services, such as tax planning and bill paying, the report said.