

New corporate finance interest group

▶ The new interest group will provide a forum for CPAs and other professionals to network, exchange views and channel their comments to the Institute. It welcomes Institute members and non-members who are working in corporate finance and related sectors. The inauguration cocktail reception is slated for 26 October. A number of prominent guests from the government, regulators and the corporate finance sector will be joining the reception.

Institute and ICAEW conference

▶ The Institute and the Institute of Chartered Accountants in England & Wales is holding its annual conference on 24 October at the Grand Hyatt hotel. This year's theme is "success in a changing business environment" for finance professionals. The fee is HK\$2,300 for members of both institutes and HK\$4,000 for non-members. Institute members can claim seven CPD hours. For details, visit www.icaew.com/hongkongconference or contact May Hung at may@hkicpa.org.hk.

Grooming CPAs

▶ The Institute is looking for experienced trainers to help coach QP students with their qualification. As a workshop facilitator, you help prepare students for a career in business and accountancy and keep your technical knowledge up to date. Workshops are held after office hours or on weekends, and members can claim CPD hours for the time spent on preparatory work and as a facilitator. For enquiries, contact Bob Cheng (tel.: 2287-7081).

Lost contact

▶ The Institute has lost contact with Chan Sheung-wai (陳尚偉) F02918, Leung Sum-ming (梁深銘) F03941 and Esther Wong Man-yi (黃楊敏儀) F03024. If you can help locate these members, please call Daisy Yeung at 2287-7042.

Obituary

▶ The Institute notes with deep regret the passing away of Kam Chun-keung and Peter Wong Chi-keung.

The institute

Judicial review judgment

Institute decides not to appeal against High Court ruling

▶ The Institute has decided that it will not appeal the judicial review case brought against the Institute by the legislator representing the accountancy constituency.

"Demand for our services is greater than ever before and we are responsible in part for the economic development of Hong Kong and China," says Mark Fong, president of the Institute. "The council understands it's time to focus our resources on matters that are more constructive to the profession rather than answering to political issues."

The legislative councillor, Mandy Tam, had taken the professional body to court for refusing to distribute her newsletters to members who didn't ask to receive them. The Court of First Instance ruled in her favour.

A record-breaking year

More than 900 QP students graduate – 66 percent increase over last year



>>Paul Chow, chief executive of HKEEx, presents a certificate to a QP graduate

highest possible standards and working through a very sophisticated programme is a great accomplishment."

The 916 graduates will now gain work experience over the next three years before they become CPAs.

The Institute's QP, established in 1999, has grown from 99 students to 9,100 this year.

"Our qualification programme has become the preferred choice of accountancy graduates in Hong Kong," said Winnie Cheung, chief executive and registrar. "We've come a long way in building up our reputable programme."

▶ The highest number of qualification programme students in the Institute's history graduated in September. The top students received awards from Paul Chow, chief executive of the Hong Kong Exchanges and Clearing Ltd., during the graduation ceremony.

"These graduates are extremely important for Hong Kong and the mainland because good accountants are a prerequisite for the mainland's economic growth and Hong Kong's role as a financial centre," said Institute President Mark Fong. "That these people are being trained to the

KPMG quit as Tack Fat's auditor

▶ KPMG has resigned as auditor of listed garment manufacturer Tack Fat Group International Ltd. because the company failed to qualify the financial information of one of its associates Sino Legend Ltd. KPMG says in Tack Fat's 2007 annual report that it could not get sufficient information from the auditor of Sino Legend to check whether its accounts, which were prepared under U.S. GAAP, were fairly stated under Hong Kong Financial Reporting Standards.

Regulation loosened on B-share companies

▶ The China Securities Regulatory Commission has eased rules requiring mainland companies listed on the B-share market to hire foreign firms to audit their accounts. The B-share market is for overseas investors and share prices are denominated in U.S. dollars. The regulator said the requirement is no longer necessary because China's financial reporting standards have substantially converged with IFRSs. China began adopting IFRSs in more than 1,400 mainland-listed companies in January this year.

China's private equity funds

▶ Two mainland brokerages won permission to set up private equity funds as part of Beijing's strategy to compete with international funds such as Blackstone and Carlyle, the *Financial Times* reported. China International Capital Corp. and CITIC Securities will be among the first to establish their own buyout funds on the mainland. CITIC plans to invest 831 million yuan into a private equity unit that would focus on buying stakes in companies preparing for initial public offerings, the report said.

Chinese exports growth slows

▶ Mainland export growth slowed in August because of a weakening demand from the U.S. due to the credit crisis, the *SCMP* reported. Overseas shipments recorded a year-on-year growth of 22.7 percent to US\$113.3 billion in August, but the figures were 11.5 percentage points lower compared to July.

Greater China news**China inflation remains high****Government announces measures to mop up excess liquidity**

▶ With high inflation and an excessive money supply, Beijing moved to curb China's overheating economy by raising interest rates and the bank reserves level, and allowing mainland investors to directly invest in the Hong Kong market, the *South China Morning Post* reported.

Last month, the People's Bank of China raised the benchmark one-year lending and deposit rates by 27 basis point to 7.29 percent and 3.87 percent respectively – the fifth interest rate hike since March, the newspaper reported. The central bank also raised the lenders' reserves ratio to 12.5 percent, soaking up 170 billion yuan.

The moves came after government statistics showed that inflation rose 6.5 percent year-on-year in August – its highest level in almost 11 years. Earlier, Premier Wen Jiabao warned that China has excessive fixed-asset investment, market liquidity and trade surplus. He said the government would “give top priority to controlling macroeconomic growth,” the *Post* reported.

To curb the problem of excess liquidity in the stock market, the State Administration of Foreign Exchange announced earlier that mainland investors are allowed to buy Hong Kong shares directly. But the scheme has been put on hold as mainland regulators are still working out details.

Do not speculate, says regulator**CSRC urges companies to curb punting on stock market**

▶ Mainland listed companies should not overlook their core operations and rely too much on investment gains from speculating in the stock market, China's securities regulator told *Bloomberg*.

“If a lot of companies are focused on stock speculation rather than their core businesses, long-run earnings and business growth will be hurt, and so will the stock market,” Qi Bin, head of research at the China Securities Regulatory Commission, was quoted as saying.

Qi said mainland listed companies derived about 12 percent of their earnings from stock market gains in the first quarter and the figure is expected to increase.

A Morgan Stanley report showed that per-share earnings growth of mainland companies in the first six months of this year would be reduced from 76 percent to 41 percent if gains from investment or other activities unrelated to core business are left out.

“For now, corporate earnings and stock market performance are feeding each other in a virtuous cycle,” the report quoted Morgan Stanley strategist Jerry Lou as saying.

The boom in China's markets has made A shares some of the world's most expensive equities in terms of price-to-earning ratios, the report said.



>>Zhou Xiaochuan, governor of the People's Bank of China

MIKE CLARKE/PHOTODISC IMAGES

Reporting plan in the pipeline

HKEx believes in quarterly reporting

► The Hong Kong Exchanges and Clearing Ltd. has proposed introducing a controversial quarterly financial reporting plan in two phases, according to a consultation paper recently released.

Under the proposal, the first batch of companies with a market capitalization of at least HK\$10 billion will have to report results every three months starting from September next year. This category includes 179 companies, representing about 18 percent of the main-board listed stocks. Smaller firms are given until September 2010 to meet the deadline. The three-month consultation ends in November.

“We believe implementation of the proposals would increase transparency,” Richard Williams, HKEx’s head of listing, said in a news release. He believes the revamp will “bring Hong Kong’s reporting standards into line with the standards in most of the other major international financial centres.”

The plan to halve the reporting period has been shelved for five years amid opposition from blue-chip companies such as HSBC Holdings PLC and Sun Hung Kai Properties Ltd. They argued quarterly reports would increase compliance costs and shift investors’ focus to short-term performance.

Despite the fact that the Growth Enterprise Market has adopted quarterly reporting since it began operating in 1999, Hong Kong is one of the few places that do not have such requirements for the companies listed on its main board. Apart from the U.S. and the mainland, the U.K. has encouraged listed companies to publish important quarterly earnings figures on a non-mandatory basis, according to the *SCMP*.

The Institute supports the HKEx’s proposal. “This is an important paper for Hong Kong – bringing more information to the capital markets in a more timely manner can only benefit investors,” says Patricia McBride, executive director of the Institute.



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Hong Kong to tap Islamic bonds

► Hong Kong plans to set up an Islamic bond market to target Middle Eastern investors with billions of dollars to invest, Financial Secretary John Tsang told the media. The Islamic financial market is estimated at US\$1 trillion and is expected to grow at an annual rate of 15 percent, Tsang said. Neighbouring countries such as Singapore and Malaysia already have Islamic bond markets, and Malaysia has two-thirds of the market share, worth about US\$47 billion. Islamic bonds are different from the regular ones because they must comply with Shariah (Islamic) law.

Action urged against money laundering

► An international anti-money laundering group has urged Macau police to conduct a risk assessment of the enclave's casinos and close potential legal loopholes, the *SCMP* reported. The Asia/Pacific Group on Money Laundering, an intergovernmental body that recently completed a study, said Macau's legal framework for reporting suspicious transactions remains fragmented and incomplete. "The risk of money laundering is substantial," the group wrote in a 300-page report. It calls for Macau police and gambling authorities to improve inspections on cash flows into Macau and better control junket operators.

Macau casinos pull in strong earnings

► Macau's casino revenues in July jumped 41.8 percent to 6.52 billion patacas, the *SCMP* reported. Despite the strong growth, analysts warned that supply is likely to expand faster than demand in the near term following the opening of the Venetian resort and other projects under construction, the report said. A survey by Deloitte found that about 66 percent of 1,207 respondents from 10 mainland cities said they had never gambled in a casino, but 40 percent of them were keen to try their luck, which would make them a "huge untapped market" for Macau's gaming industry, the report said.

Union with mainland bourses?

The Hong Kong Exchanges and Clearing Ltd. outlines development blueprint

► Ronald Arculli, chairman of Hong Kong Exchanges and Clearing Ltd., told the *South China Morning Post* in an interview that Hong Kong and China should develop a single stock trading and listing platform to compete with other top bourses around the world.

Arculli's comment came after the government increased its holding in HKEx from 4.5 percent to 5.88 percent to become the exchange's largest single shareholder in early September. Financial Secretary John Tsang said the move, which cost the government HK\$2.4 billion, could prepare Hong Kong's stock exchange to swap shares with mainland bourses, the report said.

Hong Kong is facing growing competition from the Shanghai and Shenzhen exchanges as Beijing continues to open up its capital markets. Some mainland companies now prefer to list in Shanghai. The three bourses have a combined turnover of US\$1.03 trillion in the first seven months of the year, the eighth highest in the world, according to the World Federation of Exchanges.

Arculli, an executive councillor, suggested setting up a single platform for trading and listing for the three exchanges but they can continue to have different shareholding and company structures. "This means companies could list on three exchanges, while investors could freely trade on any of the markets," he told the *Post*.

Arculli said a full merger between the three exchanges would be hard because of problems such as the convertibility of yuan and the bourses' differing structures.



>>The stock exchange in Shanghai

Changes at World Bank

Former Fed chief says reforms needed at anti-corruption unit

▶ The World Bank needs to reform its anti-corruption team, stripping the unit of key responsibilities and placing it under a new oversight board, according to a report by an independent review panel led by former Federal Reserve Chairman Paul Volcker.

The World Bank's executive board ordered the review in August last year because of claims that the anti-corruption unit, set up in 2001, was breaching procedures and abusing its authority.

The investigation found "severe strains" between the graft investigators and other bank departments, the *Financial Times* reported. One of the problems was that the anti-corruption unit was in charge of both investigating internal staff misconduct and graft on bank projects in developing countries, the report said.

The panel recommended that the bank should assign internal probes of misconduct other than corruption to a separate department and more information about investigations should be disclosed to staff. It also called for setting up an external oversight board to make the anti-graft unit more accountable. "It must not only do more to expose corruption in particular projects, but as is important, build safeguards against future abuse of its operations," Volcker was quoted as saying.

The anti-corruption department began coming under attack during a leadership ethics scandal, which saw Paul Wolfowitz, former World Bank president, replaced by Robert Zoellick.



>>Former U.S. Federal Reserve Chairman Paul Volcker

MARIO TAMAYO/GETTY IMAGES

SEC regulates

SEC charges 69 accounting firms groups

▶ The U.S. Securities and Exchange Commission has charged 69 accounting firms and partners with violating an antifraud legislation requiring firms that audit listed companies to register with the Public Company Accounting Oversight Board, *The Associated Press* reported.

It was the first cases brought by the SEC against violation of a provision of the Sarbanes-Oxley law, according to *AP*. Fifty of the firms and accountants – none from the Big Four or major accounting firms – have settled their case. They were censured instead of fined by the SEC, while 18 of the firms agreed to return part of the audit fees to the companies that had paid them, the report said.

In a move to crack down on accounting fraud, the SEC has quietly formed four working groups to speed up enforcement against suspected cases, the *FT* reported. One of the groups specifically targets potential wrongdoings related to the subprime crisis, which has resulted in an increase in tip-offs to the SEC. The other three groups deal with insider trading and hedge funds, stock options backdating and municipal bond issuance, the report said.

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Accountants become filmmakers

▶ Accounting firm Deloitte has broken new ground with a company film festival in the U.S., reported *AccountingWEB.com*. The festival showed reels shot by employees illustrating the firm's culture and values. More than 370 short films were eventually posted on an intranet site where they were rated by employees, the report said. The winners' creations would be used in campus recruitment programmes.

Corporation tax investigation

▶ The Public Accounts Committee of the British House of Commons, which oversees government accounts, is set to begin an investigation into why almost two-thirds of the U.K.'s big businesses paid little or no corporation tax last year, reported *Accountancy Age*. The investigation follows a government audit office's analysis of 700 large companies, of which about one-third paid less than £10 million corporation tax and another 30 percent paid none. A committee member expressed concern that companies might be using offshore havens to avoid taxes.

U.K. and Pakistan accounting bodies make deal

▶ The Institute of Chartered Accountants in England & Wales has formed an agreement with the Institute of Chartered Accountants of Pakistan, allowing the latter's members to top up their qualifications in order to join the ICAEW, reported *Accountancy Age*. The deal is part of the U.K. accountancy body's move to become a force in markets other than its home base, and the two organizations have pledged to increase cooperation and assistance.

Booming Asia

▶ Growth in Asia, led by China and India, will be strong this year despite the global credit crisis and U.S. slowdown, according to a forecast from the Asian Development Bank, the *FT* reported. The bank had raised its 2007 growth forecast for Asia excluding Japan to 8.3 percent from 7.6 percent. The bank cited Asia's strong domestic consumption and healthy reserves as factors helping the region to weather a U.S. downturn.

India to converge with IFRS

▶ The Institute of Chartered Accountants of India announced that the country will converge with IFRS starting from April 2011, reported *The Economic Times* in India. It will be joining the approximately 150 countries that would have adopted the standards by that date. This is the latest step India has taken recently to improve the image of Indian accountants.

Overtime suit

▶ KPMG in Canada has been sued by its employees seeking C\$20 million in damages because the firm allegedly failed to pay them overtime, reported *The Toronto Star*. It is the second high-profile class action lawsuit involving unpaid overtime in recent months, after employees sued Canadian Imperial Bank of Commerce in June. The KPMG case covers employees who worked more than 44 hours a week without overtime.

Ex-KPMG advisor pleads guilty

▶ One of the five remaining defendants in the KPMG tax fraud case pleaded guilty and would help government prosecutors to implicate some other defendants, *Accountancy Age* reported. David Amir Makov was set to face trial with the others for their alleged roles in the tax fraud scheme that cost the government US\$2.5 billion in unpaid taxes. They allegedly created tax shelters to help wealthy clients avoid taxes while working in KPMG's advisory services team in U.S.

Ex-AIG CEO to testify

▶ Maurice "Hank" Greenberg, former chief executive of American International Group Inc., is set to testify to the U.S. Securities and Exchange Commission regarding his role in the insurance firm's alleged accounting misconduct, which resulted in AIG paying US\$1.64 billion in fines and restitution to investors, policyholders and state funds, according to *Bloomberg*. Greenberg avoided testifying two years ago by invoking his Fifth Amendment right to avoid self-incrimination. The SEC probe into AIG had found that the firm allegedly inflated its reported reserves and hidden underwriting losses.

International news



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IFRSs in the U.S.?

Most U.S. companies say they don't want to switch to IFRSs

▶ Only 9 percent of U.S. companies say they would adopt International Financial Reporting Standards if given the option, while 70 percent say they won't, according to a recent survey.

The survey came amid a consultation by the U.S. Securities and Exchange Commission on the possibility of letting U.S. businesses, which currently uses U.S. GAAP, file under IFRSs, the *Financial Times* reported.

Less than half of the respondents said they supported a single set of financial reporting standards and about a third said IFRSs and U.S. GAAP can co-exist, according to the survey, conducted by Duke University and CFO Magazine.

According to Ernst & Young, although adopting IFRSs would be an option for those U.S. companies that have many foreign operations, the initial cost of switching from U.S. GAAP to IFRSs is likely to be high, *Reuters* reported.

"The costs will be significant," the report quoted Danita Ostling, a partner with Ernst & Young, as saying. U.S. companies will likely have to keep two sets of books during the changeover and it takes time to train the accountants, analysts and investment community, she says. Many European companies bore high costs when they made the switch to IFRSs.

The International Accounting Standards Board and the Federal Accounting Standards Boards have been working on a project to converge the two sets of standards since 2002. This year, the SEC surprisingly opened doors for dropping its requirement for foreign companies listed in the U.S. to comply with U.S. GAAP and for possibly allowing U.S. companies to file under IFRSs. The proposals, if implemented, would bring the U.S. in line with roughly 100 countries already using IFRSs.

Credit crisis

U.S. Fed makes drastic rate cut to avert possible slowdown

▶ The U.S. Federal Reserve cut interest rates by 50 basis points in a drastic move to prevent a sharp economic slowdown, despite concerns that an excessive cut could spur inflation, news media reported.

The rate cut to 4.75 percent went deeper than expected and suggested a degree of “panic” over the U.S. economic outlook, the *FT* quoted Alan Ruskin, a RBS analyst, as saying. It followed weeks of turmoil in the global stock markets resulting in a credit squeeze and heightened concerns about the fallout from problems in the U.S. subprime mortgage industry.

Earlier in the month, the *FT* reported widespread job cuts in the mortgage industry, led by Countrywide Financial, the U.S.’s largest mortgage lender, which laid off 12,000 people, or 20 percent of its workforce. This contributed to the first monthly decline in American jobs in four years. Analysts say that these could be the first of more job losses.

Alan Greenspan, former Fed chairman, predicted that U.S. housing prices would tumble at least in “large single-digit” percentages, if not double-digits. After avoiding the exact word during his term as chairman, Greenspan admitted that there was a bubble in the housing industry and that it was difficult to forecast how much prices would eventually fall.

Hedge funds reported they took a big hit in profits in August, with many big-name funds admitting that they are in the red for the year so far. Credit agencies have also come under attack and have been called by global securities regulators to explain the ratings process for structured products based on mortgage assets.

Meanwhile, in response to the credit problem, the European Central Bank pumped another €75 billion into the financial system for a fixed period of three months to ease the soaring interest rates for lending between banks.

Much damage has already been done. U.K. mortgage lender Northern Rock was hit with a crisis when it announced that soaring credit costs had rendered it unable to make any new loans. Bank savers rushed to withdraw some £2 billion of their deposits, forcing the government to try a rescue attempt by issuing a formal guarantee for all existing deposits, reported *Bloomberg*. It was the biggest banking crisis in the U.K. since 1973, the report said.

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Tax leniency request

▶ Japan’s Financial Services Agency has asked the Ministry of Finance to exempt foreign-backed hedge funds in the country from a 40 percent income tax, reported the *FT*. The agency hopes to draw more foreign financial talent to Japan, but the foreigners may be thwarted by the punitive tax if the fund is considered permanently established in the country. Most funds get around the tax by locating only investment advisors in the country instead of fund managers, but there have been recent fears that tax authorities are seeking to change this.

Qatar and Dubai buy LSE stake

▶ Qatar and Dubai have both bought into London’s stock exchange, with the former acquiring a 20 percent stake in the U.K. bourse for US\$1.2 billion and the latter agreeing to buy LSE shares from the U.S.’s NASDAQ Stock Market Inc., *Bloomberg* reported. Borse Dubai, the state-run holding company of the country’s two exchanges, will get a 28 percent stake of LSE from NASDAQ, a deal that will make the United Arab Emirates the largest shareholder of the London exchange. Record oil prices have enabled Qatar and Dubai to increase their overseas investment and reduce their dependence on energy.