

### news digest »» Institute

#### Salaries tax update

▶ The taxation interest group is organizing a forum on the recent developments in salaries tax on 11 September at the Institute. Barbara Forrest, a principal at KPMG, will talk about the changes to the revised departmental interpretation and practice notes No. 38 and its impact on the treatment of share awards, as well as important cases on time apportionments and termination payments. Register on the Institute's website.

#### Financial reporting forums

▶ Two forums are scheduled for 8 and 16 September about consultation on private company financial reporting and proposed changes to financial reporting standards and framework for small and medium practitioners. SMPs and preparers, who will be greatly affected by the changes, are encouraged to take part and express their views.

#### Listed companies conference

▶ Members will get special discounts for the Chamber of Hong Kong Listed Companies' annual conference on corporate governance, jointly organized by the chamber and Courses & Seminars Ltd. on 9 September. The Institute is a supporting organization and will promote the event. Additional discounts are available for group enrolment and online registration.

#### Dragon boat race placers

▶ The Institute's women's team was 4th runner-up in the Women's Open Silver Cup final and the men's team was 5th runner-up in the Professional Silver Cup semi-final in dragon boat races held in Repulse Bay on 10 August.

#### Obituary

▶ The Institute notes with regret the death of Tan Man-kou.

## Institute bags international annual report awards

The Institute tops entries from more than 35 countries in the "Academy Awards" for annual reports

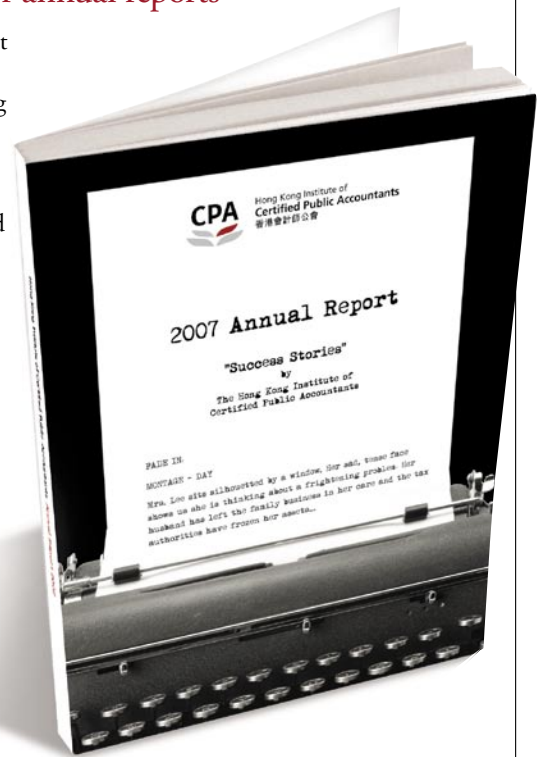
▶ The Institute's 2007 annual report swept four prizes at this year's International ARC Awards, beating entries from more than 35 countries.

The Institute won a gold award for overall excellence, a silver award for interior design, a bronze for written text and honours for cover photo and design at the 22nd annual competition viewed as the "Academy Awards" for annual reports.

The 2007 "Success Stories" annual report will be on display in a special exhibition titled "The Art of the Annual Report" at the Museum fur Kunst und Gewerbe (The Museum for Arts and Crafts) in Hamburg, Germany from 25 September to 15 October.

The exhibition attracts thousands of visitors and financial media coverage every year.

The awards gala ceremony will be held on 18 September in New York City.



## Finance chief will be guest of honour

▶ To celebrate National Day this year, the Institute and the Society of Chinese Accountants and Auditors will co-host a dinner on 23 September at the Hong Kong Convention and Exhibition Centre.

Financial Secretary John Tsang and a representative from the Liaison Office of the central government in Hong Kong will be the guests of honour at this annual event, which marks the 59th anniversary of the founding of the People's Republic of China.

Albert Au, the Institute's president, and Edwin Yeung, president of the Society of Chinese Accountants and Auditors, said the National Day celebration would provide an excellent opportunity for members working in all sectors to network with their counterparts within and outside Hong Kong.

## PwC in global reorganization

Shake-up helps the Big Four firm shift focus to emerging markets

► PricewaterhouseCoopers has announced it will reorganize its network into three major geographic clusters in a global shake-up marking a shift towards emerging markets.

The reorganization will kick off on 1 October. Under the new set-up, Silas Yang, senior partner in China, heads the east cluster; Ian Powell, senior partner in the U.K., leads the central cluster; and Dennis Nally, senior partner in the U.S., directs the west cluster.

The trio, along with Samuel DiPiazza Jr., the firm's global chief executive, and Hans Wagener, senior partner of PwC Germany, comprise the leadership team.

PwC said the new structure allows the firm to increase its focus on emerging markets, which "will be the engine of much of its future growth." The firm can also be more flexible and quicker in making investment and acquisition decisions, it said.

According to the *Financial Times*, the Big Four now get about 10 percent of their revenues from Asia and 40 percent from Europe, but fee income from emerging markets is rising at about 20 percent per year. PwC will hire an extra



**PricewaterhouseCoopers Global Chief Executive Samuel DiPiazza Jr.**

3,000 staff this year, taking its China practice to a total of 12,000 people, the report said.

The standards followed by PwC member firms will be revised and extended to increase the firms' responsibility in meeting consistent rules across PwC globally, it said.

"While our member firms will be more closely aligned and more responsive, they will continue to be locally owned and managed, preserving the high level of accountability to our stakeholders and regulators," said DiPiazza.

Under the new regional grouping, the east cluster includes Hong Kong, China, Singapore, the South East Asia Peninsula, Australia, New Zealand, Japan, Korea and the South Pacific countries. The central cluster covers the U.K., Western Europe, Central and Eastern Europe, the Middle East, India, Pakistan, Sri Lanka, Africa, the Channel Islands, Gibraltar, Iceland and Isle of Man, while the U.S., Canada, Mexico, South and Central America and the Caribbean comprise the west cluster.

Member firms will vote on the proposed changes in late September following discussions in August and September, PwC said.

Cross-country legal and regulatory hurdles have often restricted the Big Four from operating like a single entity.

In April this year, rival Ernst & Young merged 87 firms across Europe, the Middle East, India and Africa into a single structure and a similar integration joined 15 countries and territories in its Far East operations.

KPMG is also planning to combine the U.K., German-Swiss and Spanish practices, reported the *FT*.

## FASB revises disclosure requirements

► Bankers and other institutions that sell credit derivatives are now required to comply with the amended disclosure provision effective for fiscal years ending after 15 November 2008 to help investors get a better grasp of financial instruments, *CFO.com* reported.

The U.S. Financial Accounting Standards Board voted 3-2 in August to amend the disclosure rule to allay investors' concerns. Critics said the existing disclosure requirements in FAS 133 and FIN 45, which outline how companies should account for and disclose information about hedging activity, did not "adequately address the adverse effects" of changes in

the credit risk, financial strength and performance, and the cash flow of sellers of credit derivatives, *CFO.com* said.

The changes, put forward by the accounting rule makers in May, called for sellers of derivatives to disclose the nature of the instrument, the maximum potential amount of future payments, the fair value of the derivative and the nature of any recourse provisions, the news report said.

The board turned down requests to delay the effective date of the provision. This means, *CFO.com* said, that companies with calendar year-ends have about four months to comply with the amendments to FAS 133 and FIN 45.

## news digest

## »» International

**IRS cracks down on tax shelters**

► Companies that purport to lease or buy properties, including government buildings, then lease them back to the original owners now have 30 days to reach a settlement to shut down such transactions that are considered tax shelters by the Internal Revenue Service, *Accountancy Age* reported on its website. The IRS complained to the courts that the so-called “lease in/lease out” and “sale-in/lease-out” deals have no purpose other than create tax benefits for the companies that use them, the news report said. Companies agreeing to the settlement have until the end of the year to shut the transactions down, the report said.

**U.S. emerging market acquisitions down**

► Acquisitions by U.S. companies in emerging markets dropped to their lowest level since 2003, with only 59 purchases in the first half of the year, down from the 99 acquisitions recorded in the second half of 2006, according to KPMG International’s Emerging Markets International Acquisition Tracker.

**Exempt private companies from FIN 48**

► A group of financial executives has urged the Financial Accounting Standards Board to exempt private companies from the requirements of FASB Interpretation No. 48, *WebCPA* reported. In a letter to FASB Chairman Robert Herz, William Koch, chairman of the standards subcommittee under the Financial Executives International’s committee on private companies, said, “We believe that the requirement to spend accounting and auditing effort on the minor portion of tax that is paid by the firm on behalf of the owner is requiring the firm to spend limited resources on an issue that should not be given such a level of importance.”

**U.S. recession may topple big banks**

Ex-IMF chief economist says the only way to restore discipline is to let companies go bust



Photo: Ron Thomas/The Associated Press

► A U.S. recession may drive some of the country’s biggest banks out of business, a former chief economist at the International Monetary Fund warned.

“The worst is yet to come in the U.S.,” Kenneth Rogoff, now a Harvard University economics professor, told *Bloomberg*. “The financial sector needs to shrink. I don’t think simply having a couple of medium-sized banks and a couple of small banks going under is going to do the job.”

Banks globally have suffered from credit market losses amounting to US\$500 billion. The credit crisis also led to the demise of Bear Stearns, once the fifth-largest U.S. securities firm.

Last month, U.S. President George W. Bush passed a housing law giving Treasury Secretary Henry Paulson power to buy equities in troubled Fannie Mae and Freddie Mac, which own or guarantee nearly half of the US\$12 trillion of U.S. mortgages, after the companies’ shares dropped to their lowest level in 17 years. But Rogoff said the government should have nationalized Fannie Mae and Freddie Mac a long time ago.

Rogoff said some companies should be allowed to go bust in order to restore discipline into the system. “You can’t just have an industry where they make giant profits or they get bailed out,” he told *Bloomberg*.

**Alliance against U.S. insider trading**

► U.S. regulators and 10 stock exchanges have agreed on a common policing plan to detect and fight against insider trading across U.S. markets, news reports said.

Under the new system, the Financial Industry Regulatory Authority and the regulatory arm of the New York Stock Exchange will centralize surveillance, investigation and enforcement, instead of the present set-up that leaves monitoring to each stock exchange, *AFP* reported.

The plan requires the approval of the Securities and Exchange Commission.

“This should send a strong warning to those who would undermine market integrity and undercut investor confidence for their own personal gain,” *AFP* quoted Christopher Cox, SEC chairman, as saying.

Insider-trading investigations have been rising, *The Wall Street Journal* said, with the authority referring 108 cases so far this year to the SEC and 118 cases in 2007. To date, NYSE Regulation forwarded 90 cases to the SEC this year, compared to 141 cases last year.

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## Tack Fat defaults on bank loans

Hong Kong swimwear maker becomes first corporate borrower in Asia to default on syndicated loans in 2008

► Embattled Tack Fat Group International announced that it has HK\$1.09 billion in debts and has defaulted on repaying HK\$278 million in bank loans, *The Standard* reported.

The swimwear maker told the Hong Kong stock exchange in a profit-warning announcement that it could not repay HK\$133 million it owed to CITIC Ka Wah Bank, HK\$145 million to Taipei Fubon Bank and HK\$164,300 to Banco Commercial de Macau.

An unnamed bank source quoted by the newspaper, however, said the loan it owed Taipei Fubon was a HK\$384 million syndicated loan, 15 percent of which was shared by the Taipei bank, the syndication's agent.

According to *Euroweek.com*, Tack Fat is the first corporate borrower in Asia to default on a syndicated loan this year.

Gary Drew Douglas, executive director of Tack Fat, said: "The group has received various demand letters from banks, creditors and professional parties to request payment of the whole or part of the indebtedness due to them."

Tack Fat said it expected profits for the year ended March 2008 to fall significantly from a year ago because of rising costs.



Trading of Tack Fat's shares has been suspended since 30 July. Two non-executive directors and two independent non-executive directors resigned from the company in the past two months. Its accounting firm, KPMG, quit last year.

## Improper accounting halts China retailer's IPO

► Allegations of improper accounting and inflated sales figures stalled a US\$1 billion initial public offering plan by mainland apparel retailer ITAT Group Ltd., *The Wall Street Journal* reported on its website, quoting people familiar with the matter.

Investment bankers at Goldman Sachs and Merrill Lynch, which were involved in preparing ITAT's IPO in Hong Kong, one of the biggest China deals of the year, noticed a discrepancy between the high sales figures and the lack of activity at its stores visited by analysts, the report said.

In addition, the Hong Kong Stock Exchange got an anonymous letter alleging financial misreporting by the company, *WSJ.com* reported.

ITAT and the two investment banks have parted ways, while its accounting firm, KPMG, is still investigating charges in the anonymous letter, the newspaper said.

The apparel retailer told *WSJ.com* that the IPO "is currently under way" but could not comment further because of Hong Kong listing rules.

## State conglomerates to headquarter in Hong Kong

► China's state conglomerates, especially state investment vehicles set to expand overseas, may move their headquarters to Hong Kong as they become more international after acquiring overseas assets, the *South China Morning Post* reported.

Li Rongrong, chairman of the State-owned Assets Supervision and Administration Commission, confirmed the officials had studied the proposal for some time, the *SCMP* reported.

"It could happen," Li said, but the decision of where to be headquartered would be left to the state enterprises.

According to Li, the commission would not interfere with whether state-owned firms should go public in Hong Kong or on the mainland, although the commission had previously urged them to list on the Hong Kong bourse.

Li said the U.S. economic slowdown would affect state-owned enterprises in China and their senior executives were advised to speed up restructuring to brace themselves for future challenges. The central government has said it plans to reduce the number of state-managed companies to 80 from 150 by 2010.

## Talent crunch

### Survey: Hong Kong suffers from the most severe shortage of skilled accounting and finance professionals in the world

► Eighty-six percent of Hong Kong employers are having trouble finding suitable candidates to fill their vacancies in the financial services and accounting sectors, the highest proportion in the world, according to an annual survey by recruitment firm Robert Half International released last month.

“Recruitment challenges in Asia were elevated in comparison to many other countries around the globe,” with a higher percentage of employers in Hong Kong (86 percent), Singapore (72 percent) and Japan (65 percent) having difficulties finding skilled professionals, compared to the global average of 54 percent, said Andrew Brushfield, Robert Half Hong Kong director.

Hong Kong employers are also worried about losing talented employees, with 92 percent of them reporting concerns on retaining staff, compared to the global average of 55 percent.

The survey showed that Hong Kong employers, much more so than those from other jurisdictions, are putting more value on employees’ understanding of international markets (37 percent vs. a global average of 19 percent) and experience working abroad (28 percent vs. 8 percent). Globally, employers place regulatory compliance expertise and legal background as the most important attributes in an employee.

The survey polled more than 5,900 human resource and finance managers in 20 countries between March and April this year.



Photo: Tim Graham/Getty Images

## China to train 100,000 accounting professionals a year

► Chinese Finance Minister Xie Xuren said the three national accounting institutes in China will train 100,000 people annually as senior accounting, audit and finance professionals in the next five to 10 years.

Xie said the institutes will teach another 1,000 a year to help them achieve an international level of competence, according to the official *Xinhua* news agency.

Xie, who chairs the institutes’ board of directors, disclosed these ambitious plans after meeting with the board in July, during which they assessed the institutes’ achievements over the past decade, the report said.

The Beijing National Accounting Institute, established in 1998, has taught more than 130,000 people in the past 10 years, *Xinhua* reported, citing figures from the institute’s journal. The other institutes in Shanghai and Xiamen were established in 2000 and 2002, respectively.

## news digest

### »»China

#### ICBC posts world record profit

► Industrial and Commercial Bank of China reported a 57 percent jump in net profit to 64.9 billion yuan in the first half of 2008, up from 41 billion yuan in the same period last year, thanks to higher fee income and widening government-set interest rate margins, newspapers reported. ICBC’s buoyant first-half earnings were the highest reported by any bank in the world and boosted its title as the world’s largest bank in terms of market capitalization, according to the *Financial Times*.

#### Appliance tycoon to serve 10 years for fraud

► China’s home appliance tycoon Gu Chujun began serving 10 years in prison for accounting fraud and embezzlement after he withdrew appeals to overturn his conviction handed down on 2 June by a court in Guangdong, *Reuters* reported. Gu, former chairman of Hinsense Kelon Electrical Holdings, was fined 6.8 million yuan and ordered to repay the 165 million yuan he took from the company. Mainland securities regulators found that Gu inflated Kelon’s profits in 2001 and 2005.

#### Corrupt official sentenced to death

► In China’s first convicted money laundering and corruption case stemming from embezzlement and bribery, Yan Dabing, former director of the Bureau of Transportation in Wushan county, Chongqing, received a death sentence for taking about 22.26 million yuan in bribes and using his position to gain unfair benefits, and his wife Fu Shangfang was sentenced to three years in prison and five years on probation for money laundering offences, the People’s Bank of China said on its website. Yan was ordered to forfeit all personal properties and his wife was fined 500,000 yuan.