



news digest

»» Institute

AGM and council elections

▶ The Institute is holding the 36th annual general meeting and election of council members on 12 December. Catherine Leung of J.P. Morgan Securities and Ambrose Cheung of Lai Sun Development have been reappointed as lay members by the government for another two-year term.

Accounting for sustainability

▶ Chris Joy, the Institute's quality assurance director, will attend the Accounting for Sustainability Forum on 17 December in London. The forum is an initiative of Prince Charles in response to calls for solutions to the sustainability challenge.

2009 membership renewal

▶ It's time to renew your membership – pay your annual subscription and submit your CPD declaration on or before 15 December. There is no increase in fees for 2009.

Annual dinner

▶ Dress to the 70s for the "Successes along Memory Lane – 懷舊之夜" on 3 December at the Hong Kong Convention and Exhibition Centre, as members gather for the Institute's annual dinner.

Corporate governance conference

▶ The conference on corporate governance in the financial sector, organized by the Hong Kong Independent Commission Against Corruption, the mainland's Ministry of Supervision and the Commission Against Corruption Macau, will be held on 8 December at Conrad Hong Kong. Conference participants will be credited 5.5 CPD hours.

Obituary

▶ The Institute notes with deep regret the passing of Tam Wing-tsun and Ho Tai-on.

Corporate governance awards

Institute says winners' annual reports exceed general standard of disclosure

▶ Winners of this year's best corporate governance disclosure awards showed marked improvement in their annual reports' disclosure scope, quality and presentation, but newly-listed and GEM-listed companies demonstrated poor commitment to voluntary disclosures, said Institute President Albert Au.

"There are still too many companies that seem to treat corporate governance as a compliance issue and not see the lift that it can give to corporate performance," Au told a news conference last month.

This is the ninth year of the Institute's best corporate governance disclosure competition. The Institute received more than 240 annual reports, or 50 percent more than last year's. Seventy-five reports reviewed by the judges were first-timers.

Stephen Law, chairman of the organizing committee, said reviewers and judges examined annual reports for fiscal years that ended on or before 31 March 2008 and assessed the scope of disclosures, quality of corporate governance information and governance practices. They also gave extra weight to internal controls and risk management in the marking scheme this year.

"This is an important area of a company's internal management and it is an area of potential voluntary disclosures where the good companies will stand out," Law said.

Winners in the Hang Seng Index category are CLP Holdings (diamond), HSBC Holdings (platinum), Hong Kong Exchanges and Clearing (gold) and Bank of Communications (significant improvement). In the non-Hang Seng Index category, Hysan Development clinched diamond, Standard Chartered won platinum and Transport International Holdings got gold.

H-share category winners are Shenzhen Expressway (diamond), Jiangsu Expressway (platinum), Industrial and Commercial Bank of China (gold) and China Construction Bank Corp. (special mention). In the public sector/not-for-profit organizations category, the Airport Authority won diamond and the Securities and Futures Commission got platinum.

Disciplinary findings

Name	Maurice Fong Yuk-kee, CPA, of Maurice Fong & Co.	Adrian Li Kwong-chung, CPA, of Adrian K.C. Li & Co.
Complaint	Non-compliance with Statement 1.203 "Professional Ethics – Integrity, Objectivity and Independence" and Statement 1.303 "General Guidance – Restrictions on Appointments as Secretaries and Directors of Audit Clients" in the audit of the financial statements of a private company.	Non-compliance with Statement of Standard Accounting Practice 20 "Related Party Disclosures" in the audit of the financial statements of a private company. Li admitted to the complaint.
Decision	Reprimanded, fined HK\$50,000 and ordered to pay HK\$250,000 towards costs. (D040592C)	Reprimanded, fined HK\$20,000 and ordered to pay HK\$30,000 towards costs. (D050144C)

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Massive banking layoffs

U.S. government announces US\$326 billion rescue package for Citigroup



Photo: Emmanuel Dunand/AFP/Getty Images

► Citigroup Inc. has become the latest ailing banking institution to receive bailout funds from the U.S. government, news media reported last month. The US\$326 billion rescue plan involves the U.S. Treasury Department, the Federal Reserve and the Federal Deposit Insurance Corp. taking a US\$20 billion stake in the firm and guaranteeing hundreds of billions of dollars in risky assets, according to *The Associated Press*.

The US\$20 billion cash injection will come from the US\$700 billion financial bailout package approved by the U.S. Congress earlier, according to *AP*. Under the plan, the Treasury and the FDIC will guarantee up to US\$306 billion in risky loans and mortgage-backed securities; Citigroup will be responsible for the first US\$29 billion in losses on such assets, but the government will absorb 90 percent of the remaining losses, the report said. The government plans to cover its portion of potential losses with money

from the bailout package and funds from the FDIC.

The announcement came straight on the heels of Citigroup's plan to eliminate approximately 53,000 jobs over the next year following four straight quarterly losses.

Citigroup Chief Executive Vikram Pandit said 15 percent of the New York-based bank's approximately 352,000 workforce will be eliminated, twice the target amount announced in October. The layoffs include 9,100 already announced in October, and at least 26,000 asset sales positions, according to *Bloomberg*.

As of late November, Citigroup's stock was at its lowest price in 12 years. Citibank's announcement brings to 166,000 the number of banking and brokerage jobs shed since last year's U.S. subprime mortgage woes sparked a credit crisis.

Global banking giants have cut thousands of jobs in recent weeks in the wake of the financial meltdown.

U.S. investment bank J.P. Morgan announced it plans to cut as many as 3,000 jobs worldwide, according to the *Financial Times*. The figure amounts to about 10 percent of its workforce. The bank, which absorbed Bear Stearns several months ago, is reducing its workforce in the equities department, the *FT* said. More cuts are expected in other divisions of the bank, including commodities, sales and trading, and investment banking.

Deutsche Bank is expected to cut at least 12 percent of its 7,000 workforce in the coming weeks, mostly in New York and London, the *FT* said. Morgan Stanley is slashing 10 percent of its institutional securities division, following a 10 percent cut earlier this year, according to *AP*. HSBC announced it would cut 500 jobs in Asia, with 450 of them in Hong Kong.

Job cuts aside, top investment banks are stepping up other cost-cutting measures to turn their firms around. Goldman Sachs Group Inc. said its chief executive, Lloyd Blankfein, and six deputies have decided to forgo year-end bonuses, *The Wall Street Journal* reported. The move may prompt other banks to follow.

The six executives would only be eligible for a base salary of US\$600,000 each. Blankfein made US\$68.5 million last year, while at least three other executives who are forgoing bonuses raked in between US\$57 million and US\$67 million, according to *Reuters*.

New York Attorney General Andrew Cuomo applauded the executives' move after he warned earlier that Goldman and eight other banks could be breaking state law if they give their executives big bonuses with federal money they received under the government bailout package, *Reuters* reported.

SEC releases plan to adopt new accounting standards

U.S. regulators estimate that at least 110 companies would be eligible for adoption in 2010

► The U.S. Securities and Exchange Commission released a detailed plan last month outlining a long-awaited proposal to let U.S. companies switch to international accounting rules.

If the SEC votes in 2011 to approve the plan, publicly traded U.S. companies would have to abide by International Financial Reporting Standards by 2014. Under the proposal, the biggest U.S. listed companies will begin using IFRS in 2012 and the practice will be extended to all U.S. companies by 2014, *CFO.com* reported.

In industries where a significant number of companies use IFRS, qualifying U.S. companies could be allowed to file financial results under international rules as early as 2010, according to *Reuters*. The report said the SEC estimates that 34 out of 74 industry groups, or a minimum of 110 U.S. companies, would be eligible for early adoption.

The proposal is open for public comment until 19 February 2009, but is already facing

criticism over financial and administrative burdens, according to *Reuters*.

Talia Griep, vice president and controller at manufacturer Honeywell International Inc., told *Reuters* that her company would have to begin running parallel sets of accounting books for both U.S. GAAP and IFRS, at least until the conversion is complete. Such a move, she said, would entail additional training, technology and other costs for her accounting staff.

"I don't think this is a particularly good time, given the economy, to begin this massive... move to IFRS," Griep said. "It's just a tall order to ask for any group of executives."

The SEC estimates that the 110 U.S. companies that have the option of adopting the standards in 2010 would each face around US\$32 million in additional costs. But the regulator says companies with overseas rivals may find their financial results more comparable if they file in IFRS.

Tweedie almost quit over fair value

► Sir David Tweedie admitted that he nearly quit as chairman of the International Accounting Standards Board due to political meddling by the European Commission that led to changes in fair value accounting rules, the *Financial Times* reported.

He warned that more interference in accounting rules would hurt convergence efforts between the IASB and the U.S. Financial Accounting Standards Board. The changes, which now allow reclassification of certain financial assets under rare circumstances, were done without the usual due process.

Tweedie told members of the U.K. Treasury select committee looking into the banking crisis that he considered resigning after the IASB was effectively forced to amend, without consultation, the controversial IAS 39 to avoid a "carve-out" threat by the European Commission, according to *Accountancy Age*.

"If the EU had done another carve-out... that would have crippled the whole global process," he was quoted as saying. "Accounting in Europe would have been totally out of control if they had managed to push through the carve-out."

But Tweedie decided to stay to continue pushing for a single set of accounting standards. "We're almost on the verge of winning the international project. I would hate to walk away at this stage."

He refuted accusations that the IASB was being "spineless" and "caving in" to political pressure by allowing the reclassification of financial instruments, saying the alternative would be far worse.

Over-regulation worries risk managers

► Proposed legislation on solvency that will effectively revamp the insurance industry in Europe is worrying risk managers because they fear it could lead to over-regulation, the *Financial Times* reported.

According to Marie-Gemma Dequae, president of the Brussels-based Federation of European Risk Management Associations, the Solvency II legislation seeks to overhaul the supervisory regime for insurers and could change how much buffer capital companies should hold to

match it with the risks they face.

Another source for concern is the concept of "group supervision" for companies with cross-border operations, since this will involve a regulator in a company's home state setting capital requirements across the whole insurance group, the *FT* said.

Risk managers say the proposal, being eyed for implementation in 2012, could potentially end the "block exemptions," which allow some practices in the industry to escape the European anti-trust scrutiny.

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»»International

Top UBS banker indicted in U.S.

► Raoul Weil, chairman of UBS' global wealth management arm in Zurich, was indicted by a grand jury in Florida for conspiring with the bank's executives, private bankers and clients to defraud the U.S. of tax revenues, according to *AFP*. Weil, who supervised the overseas activities of the bank involving some 20,000 U.S. customers between 2002 and 2007, allegedly instructed Swiss bankers to increase cross-border transactions to help clients hide around US\$20 billion worth of assets from the Internal Revenue Service.

Deloitte sues former vice chairman

► Deloitte & Touche has sued its former vice chairman, Thomas Flanagan, for insider trading, *WebCPA* reported. The complaint accused Flanagan, who has been a Deloitte partner for 30 years, of profiting from the stock trades using insider information on the firm's audit clients. In one case, Flanagan allegedly bought stocks in the acquisition target of a client for whom he served as advisory partner a week before the deal was publicly announced in 2007. Deloitte is seeking repayment with interest of money Flanagan received following his initial breach of contract and fiduciary duty, the report said.

GE's blog raises disclosure worries

► General Electric has begun using a company blog to share market-moving news with investors and the media, but the move is raising disclosure worries from corporate governance experts, *Reuters* reported. GE launched the blog on 22 October and says it enables the company to communicate faster with stakeholders, particularly in this period of economic turbulence. But Timothy Pollock, a Penn State University business professor, questioned the firm's agenda behind the move. "You wonder about the validity of the information to some extent too," he told *Reuters*.

Accounting standard setters urged to promote financial stability

G20 leaders support financial reporting convergence but want IASB to step up governance



The G20 leaders discussed measures in Washington D.C. to promote financial stability last month.

► Efforts to create a single set of accounting standards received strong backing at the G20 summit, but leaders of the world's wealthiest nations wanted the global accounting standard setter to do a better job with its governance.

The G20 leaders took the International Accounting Standards Board to task in a declaration issued at the end of the summit in Washington, where discussions on the financial crisis and steps to restore global stability took centre stage.

"With a view toward promoting financial stability, the governance of the international accounting standard setting body should be further enhanced, including undertaking a review of membership in particular, in order to ensure transparency, accountability and appropriate relationship between this independent body and the relevant authorities," according to a statement issued at the end of the summit.

This is one of five actions the G20 leaders would like to see the IASB carry out by 31 March 2009. The leaders also prodded the IASB to give more guidance for valuation of securities, including complex and illiquid products, and address weaknesses in accounting and disclosure standards for off-balance sheet vehicles.

Some critics, however, frowned at the G20 statement for putting the burden of restoring financial stability on the international standard setters, saying that is not compatible with the IASB's role.

Ken Wild, IFRS leader at Deloitte, was quoted by *Accountancy Age* as saying that accounting was "about transparency and that's a different subject from financial stability."

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Beijing unveils measures to prop up economy

Mainland approves large-scale economic stimulus package

▶ Chinese officials have announced a four trillion yuan stimulus package led by spending on large-scale infrastructure projects to boost domestic demand. Other measures include loosening credit conditions and cutting taxes, *Xinhua* reported.

The two-year programme will focus financing on 10 areas, including low-income housing, rural infrastructure, water, electricity, transportation, the environment and reconstruction following the Sichuan earthquake and other disasters, *Xinhua* said.

The government also plans to reform value-added taxes, which could reduce industry costs by 120 billion yuan. In addition, credit ceilings for commercial banks will be scrapped to promote

lending for priority projects, rural areas, smaller enterprises, technology and industrial ventures, the report said.

The decision was agreed upon last month by the State Council and is equivalent to one-third of China's total fixed asset investment last year, *Xinhua* quoted a State Council researcher, Zhang Liquan, as saying.

The central government has also taken steps to prop up Beijing's property market by halving the contract tax for homebuyers if the property price is below a certain level, *Xinhua* reported. The Beijing municipal bureau of statistics said the average price of apartments in October fell by 0.2 percent month-on-month, for the first time since 2005, the report said.

Beijing is expected to devise more policies in the coming months to help ward off effects of the global financial crisis on China's economy. Analysts warned that exports, which have been growing at an annual rate of more than 20 percent, may fall as low as zero in coming months because of weakening global demand, *The Associated Press* reported.

The World Bank has revised its forecast for China's 2009 economic growth to 7.5 percent, its lowest level in 19 years, from a previous estimate of 9.2 percent, *AFP* reported. Weakness in the housing market is one factor dragging down China's growth, Louis Kuijs, a World Bank senior economist, told a briefing in Beijing.

Record deficit predicted for Hong Kong

▶ Deloitte forecast a record HK\$80 billion budget deficit for Hong Kong in the fiscal year of 2008-09. Estimates released by the firm last month showed a HK\$48.6 billion deficit posted for April to September, more than eight times last year's HK\$5.6 billion deficit for the same period.

The HK\$80 billion deficit would top a HK\$63.3 billion deficit recorded in 2001-02, when Hong Kong was dealing with the economic fallout from the bursting of the global dotcom bubble, according to *Reuters*. Deloitte is also forecasting a HK\$20 billion deficit for 2009-10.

Still, Yvonne Law, a Deloitte tax partner, recommended that the government should increase personal tax allowance to HK\$113,000 from HK\$108,000 to reflect inflation adjustments and help taxpayers cope with the rapidly worsening economy.

The Hong Kong Inland Revenue Department is reporting a 70 percent increase in the number of people who have applied to delay paying their taxes this year to 9,800 from 5,800 in October last year. Tax experts are predicting more holdover applications as the economic turmoil worsens, the *South China Morning Post* reported.

Beijing takes steps to stem capital flight

▶ Mainland authorities have tightened their watch on exporters' overseas receivables to prevent a sudden outflow of capital due to liquidity woes overseas, the *South China Morning Post* reported.

The State Administration of Foreign Exchanges said exporters would be required from this month onwards to report any overseas receivables due more than 90 days once goods are shipped, the *SCMP* said.

Economists said the move underlined the central government's concerns about capital flight after China stopped the yuan's appreciation to boost declining exports. But Lu Ting, a Merrill Lynch economist, said "the new arrangement will help [the exporters] get their money back sooner because a three-month payment period is too risky."

Under the new guidelines, exporters must inform SAFE of outstanding claims exceeding US\$5 million and payments delayed a year or more, the *Post* reported.

The currency regulator will also investigate firms reporting deferred receivables that make up 20 percent or more of their total export revenue.

Relief for Guangdong and Hong Kong businesses

Rescue plans seek to lift sagging SMEs and industries affected by the credit crunch and export slowdown



Photo: Reuters/OTHK

▶ Guangdong has unveiled a 40 billion yuan rescue plan to boost its manufacturing industry plagued by a spate of closures and bankruptcies because of a decline in exports. Hong Kong has done its bit by providing HK\$10 billion in loans to small and medium-sized businesses. The government pledged to guarantee 70 percent of the loans.

Guangdong has earmarked 540 million yuan to subsidize competent SMEs in need of help until 2011 and another 200 million yuan tax rebate for labour-intensive factories next year, the *South China Morning Post* reported. Another 40 billion yuan will be spent on speeding up the relocation of factories to remote parts of Guangdong by 2012, of which six billion yuan will go to constructing industrial parks and 700 million for labour training.

Meanwhile, Hong Kong's SMEs can borrow up to HK\$1 million from financial institutions and use half of the amount as revolving credit, according to the *Post*. In the first six months, borrowers can opt to pay the interest on the loans only, after which they have up to two years to settle the full amount. The government said the scheme is expected to benefit about 10,000 to 15,000, or 3.5 percent to 5 percent of the total number of SMEs in Hong Kong.

Mainland banks told to boost risk controls

▶ The China Banking Regulatory Commission urged banks to boost risk controls, improve internal operations and step up monitoring of the financial condition of borrowers to ensure stability and economic growth, *Reuters* reported.

The banking regulator told lenders that they should constantly monitor the sales and operations of corporate clients, in particular processing firms, and make sure their loans are safe, the report said.

Liu Mingkang, the commission's chairman, also encouraged lenders to widen the scope of spot checks and impose stricter penalties against misconduct within the banks.

Despite the calls for greater risk controls, Jiang Dingzhi, vice chairman of the commission, said China's banking industry is healthy, with rapidly rising total assets and falling bad loan rates, *Xinhua* reported. As of September, total bank assets reached 59.3 trillion yuan, more than quadrupling the figure recorded in 1998. The banks' profits after tax rose to 446.7 billion yuan from 36.4 billion yuan in 2002, the report said.

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Exchange Fund posts losses

▶ Hong Kong's Exchange Fund suffered a HK\$83.3 billion loss in the past three quarters because of investments in the local stock market, which has fallen 57 percent this year, *Reuters* reported. Hong Kong Monetary Authority Chief Executive Joseph Yam said the loss translated into a 5.8 percent negative return and the fund is looking at a full-year loss due to more market declines in October and November.

VAT reform means little to SMEs

▶ China's value-added tax reform could barely help battered small and medium-sized enterprises, the *SCMP* reported. The new scheme, set to take effect in January, allows companies investing in fixed assets such as machinery and equipment to claim tax deductions. But Alfred Shum, a partner of Ernst & Young China, said very few manufacturing SMEs "now have the cash power to expand their production."

66 cases of illegal securities trade

▶ China's stock market regulator seized 153 million yuan and fined more than 200 individuals 146 million yuan in connection with 66 cases of illegal securities trades in the first nine months of this year, *Xinhua* reported. The China Securities Regulatory Commission investigated 93 illegal market trading cases, including insider trading, market manipulation and violation of information disclosure, during the period.

Private lenders may be legalized

▶ A move to legalize private lenders is gaining ground in the mainland to give cash-strapped businesses greater access to capital and regulate underground banks, *Beijing Times* reported. A draft rule has been submitted to the State Council for review but no timetable has been set yet, the paper said.