



## news digest »» Institute

### New recruitment website

▶ The Institute will introduce a new online recruitment website on 26 March to link CPAs with prospective employers. The portal, which will be accessible directly from the Institute's main website, aims to provide the most comprehensive roundup of current accounting and finance positions in Hong Kong, China and beyond, as well as information on upcoming events. Watch out for more news in next month's *A Plus*.

### Rich Kid, Poor Kid

▶ A new documentary film showing CPAs teaching children money skills is being produced in English and a Cantonese version is underway. The two films may be ready by April.

### Practising certificate deadline extended

▶ The consultation deadline for the proposed changes to the practising certificate regime has been extended to 31 March. An information session was held on 2 February with nearly 200 members.

### Liability reform

▶ PricewaterhouseCoopers global leader for public policy and regulatory affairs, Peter Wyman, spoke to members on 18 February about the role of accountants in the stability of capital markets and how liability reform plays its part.

### Obituary

▶ The Institute notes with regret the passing away of Luu Yeu Khiem.

## Principles-based accounting

### GAA supports principles-based financial reporting

▶ The Global Accounting Alliance, a 10-member group of the world's leading professional accountancy bodies including the Institute, has called for a global debate on how to simplify financial reporting and establish principles-based financial reporting standards.

Winnie Cheung, chief executive of the Institute, pledged full support for such a debate at the conclusion of the organization's first major research project on 2 February.

"This will assist the broader adoption of principles-based standards and address the increasing complexity and detail in company financial statements. We look forward to making a full contribution to that debate," she said.

The alliance said a financial reporting environment based on judgment, rather than adherence to a rulebook, will allow preparers and auditors of accounts to focus on the true economic substance of financial transactions.

Kevin Dancy, the GAA's chairman and chief executive of the Canadian Institute of Chartered Accountants, said there is a strong interest in reversing the growing complexity in financial reporting.

"But there are legal, cultural and regulatory challenges that will need to be tackled... the only way to resolve these issues will be through a global debate," he said.

## Settlement of Regulatory Proceedings

▶ The Institute announced on 27 February 2009 that it had settled investigation and disciplinary proceedings in respect of alleged violations of its professional standards involving Arthur Andersen & Co. ("AA") (a de-registered CPA firm).

The alleged violations related to the conduct of AA of the audit of three listed companies and the accountants' reports in two prospectuses covering various financial years from 31 December 1996 to 31 December 2001.

A copy of the press release issued by the Institute in respect of this settlement can be found at <http://www.hkicpa.org.hk> for 28 days until 29 March 2009.

## Disciplinary findings

### Henry Lam Chi-yin, CPA

**Complaint:** Non-compliance with statement 1.200 "Professional Ethics – Explanatory Foreword" due to his conviction in Hong Kong of an offence under the Securities and Futures Ordinance, Cap. 571, and the suspension of his licence to practise as a CPA in the U.S. state of Washington for five years. Lam admitted to the complaint.

**Decision:** Lam shall be removed from the register of CPAs for the period up to 31 January 2012 and shall pay the costs of the disciplinary proceedings.

### Law Chui-ting, registered student

**Complaint:** Guilty of misconduct in carrying out her duties as a registered student through her deliberate acts to mislead the Institute and its examinations board by falsifying a document in order to obtain special consideration from the board in relation to her qualification programme workshop marks. Law admitted to the complaint.

**Decision:** Law has been removed as a registered student and shall pay the costs of HK\$18,000.

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## Obama signs massive stimulus plan, caps executives' pay

U.S. Congress approves US\$787 billion package amid soaring job losses

► U.S. President Barack Obama has signed into legislation a US\$787 billion economic stimulus plan, one of the most expansive anti-recession efforts by the U.S. government since World War II.

The plan, which overcame Republicans' resistance and was approved by both chambers of Congress on 13 February, aims to create or save 3.5 million jobs, according to *Reuters*. It includes tax cuts and spending for unemployment benefits, food stamps and health coverage, *BBC.com* reported. Billions will also become available for states that face deep cuts in their own public spending, the report noted.

The latest government figures show the U.S. recession is deepening; some 2.6 million workers lost their jobs in 2008, a figure higher than in any year since World War II, according to *BBC.com*. In January, the U.S. unemployment rate rose to 7.6 percent, making it the worst month for the labour market since 1974, *The Independent* reported.

And the axe looks like it will continue to fall. General Motors Corp. is slashing another 20,000 jobs in the U.S., while Toyota said it will reduce hours and scale back production at its North American plants, media reports said.

In another attempt to help thaw credit markets and ignite lending, U.S. Treasury Secretary Timothy Geithner unveiled a US\$2 trillion plan last month: Half of the money will go to partnering with the private sector to buy bad loans of up to US\$1 trillion from lenders, while the other half will be used for capital injections into the banks and expanding a Federal Reserve



Photo: Reuters/OTHK

lending programme, *The Associated Press* reported.

Geithner said the bailout would lead to "cleaner and stronger" bank balances by imposing tough new standards, according to *AP*. Banks would also be subjected to a medical-like "stress test" to ensure they were healthy enough to lend before receiving additional government financial aid.

As part of his government's efforts to curb Wall Street excesses, Obama imposed a US\$500,000 salary cap on senior executives at companies that receive "exceptional assistance" from the government, such as Bank of America, Citigroup and insurance giant American International Group. The new rules also limited bonuses or other compensation to be in the form of deferred stocks that vest only after taxpayers are reimbursed.

But Christopher Dodd, the senator who chairs the Senate Banking, Housing and Urban Affairs Committee, tightened the proposed rules further by extending the pay and bonus limits to all banks that receive bailout money, *AP* reported.

Obama originally proposed to restrict severance packages, known

as "golden parachutes," for dismissed executives and require companies to disclose their policies on luxury expenditures such as holiday parties, corporate jets and office renovations. The rules will apply to all companies receiving future help but won't be imposed retroactively, *The Wall Street Journal* reported.

Dodd went one step further and sought to ban golden parachutes for departing executives altogether, according to *USA Today*. Officials feared Dodd's proposals were too restrictive and could prompt top talent to leave U.S. financial institutions for their foreign competitors, *The Washington Times* reported. As of 15 February, the Obama administration indicated that it would seek to revise the stricter rules, which were part of the US\$787 billion fiscal stimulus bill, even after they were signed into law.

In the latest round of bad news for struggling corporations, General Motors is seeking another US\$12 billion for a total of US\$30 billion from the government to avoid filing bankruptcy by the end of March, *The New York Times* reported, while Chrysler is requesting an extra US\$2 billion loan.

Financial institutions, having lost more than US\$700 billion in the last two years globally, continue to face losses. Morgan Stanley plans to eliminate up to 1,800 jobs, or about 4 percent of its workforce, while UBS is axing another 1,500 to 2,000 of its global investment banking jobs, the *FT* reported. Merrill Lynch Global Wealth Management, recently acquired by Bank of America Corp., plans to cut 1,000 support staff in its U.S. branches, *CNN.com* reported.

# Price Waterhouse India auditors blame Satyam boss for fraud

Satyam auditors face disciplinary action

► Two ex-partners of Price Waterhouse India arrested in connection with the Satyam Computer Services Ltd. scam claimed that the founder and former chairman of the embattled technology outsourcer conspired with other top executives to conduct the US\$1.5 billion accounting fraud, news reports said.

The pair, S. Gopalakrishnan and Talluri Srinivas, who have been suspended by Price Waterhouse, told police that Satyam's ex-boss, Ramalinga Raju, had regularly presided over meetings with top managers to fudge Satyam's accounts in India's biggest ever fraud case, according to the *International Business Times* of India.

Raju resigned from the company in early January after admitting he had illegally boosted the company's earnings and created a fictitious cash balance of more than US\$1 billion when it only had US\$66 million. He then claimed none of the directors knew about the fraud and neither he nor his brother and co-founder, B. Rama Raju, "took even one rupee from the company," *IBT* said.

However, according to a police officer present at an interrogation of the two auditors, the pair claimed the fraud had been going on for at least six years and the company's internal audit team was well aware of it, but no one dared blow the whistle because of Raju's "towering presence," the report said.

"We did not dare raise questions when the client was a reputed company. Moreover, Ramalinga Raju himself took personal interest in the accounts," one of the auditors allegedly told police.

Five people – the Raju brothers, the two auditors and the company's former chief financial officer, Vadlamani



Photo: Noah Seelam/AFP/Getty Images

**Ramalinga Raju, Satyam's former chairman, returns to prison in India.**

Srinivas – were arrested in connection with the case and they face charges of cheating, criminal conspiracy, falsification of records and forgery.

The Institute of Chartered Accountants in India has initiated disciplinary action against the two auditors. ICAI President Ved Jain said the pair could lose their permit to practise if found guilty, *Bloomberg* reported. On 3 February, the institute gave Price Waterhouse an additional 30 days to explain its actions on Satyam. The firm's head of auditing practice, Thomas Mathew, will reportedly step down from his management role, the report said.

This is the second time in recent years that Price Waterhouse India has run into trouble with the authorities. In 2003, the audit firm was barred from auditing banks following the Global Trust Bank scam. The ban was lifted in 2007 after the company successfully lodged an appeal with the Reserve Bank of India. The central bank is reportedly reviewing its decision to revoke the suspension.

## U.S. tycoon charged with US\$8 billion investment fraud

► U.S. securities regulators have charged Texan billionaire and cricket promoter, Allen Stanford, with running a US\$8 billion fraudulent investment scheme through his Antigua-based offshore bank, news media reported.

The Securities and Exchange Commission accused the financier of selling about US\$8 billion worth of "certificates of deposits" to investors by promising "improbable and unsubstantiated high interest rates," the *Financial Times* reported.

"We are alleging a fraud of shocking magnitude that has spread its tentacles throughout the world," Rose Romero, regional director of the SEC's Fort Worth regional office, was quoted as saying.

Last year, the Stanford International Bank, located in St. John's, Antigua, promised to pay customers 4.5 percent interest for 12-month certificates of deposits, representing a 3.5 percent premium over two-year U.S. Treasury bonds, according to *Forbes.com*.

The SEC alleged that the bank falsely claimed that customers' deposits were safe and that it re-invested client funds mainly in "liquid" financial instruments, the *FT* said. The regulator said the bank was "operated by a close circle of Stanford's family and friends," the *BBC* reported. Also charged are the bank's chief financial officer, James Davis, and Laura Pendergest-Holt, chief investment officer of the bank and its parent company, Stanford Financial Group, according to *Forbes.com*.

Stanford last year promoted the Stanford cricket series, which saw a West Indian all-star team, the Stanford Superstars, beat an England team for a US\$20 million prize, the *BBC* reported.

## news digest

## »»International

**Australia falls into deficit**

► Australia is facing its first deficit in seven years, the *Financial Times* reported. Kevin Rudd, Australia's prime minister, said the global recession is expected to result in a US\$75.3 billion tax shortfall over the next four years, partially because of China's falling demand for Australian mining resources, the report said.

**Growth in Japan plunges to 35-year low**

► Plunging exports in Japan and weak domestic consumption have knocked the country's growth to a 35-year low, news reports said. The last three months of 2008 showed a quarter-on-quarter fall of 3.3 percent in gross domestic product, which amounts to an annualized fall of 12.7 percent for the country. "This is the biggest economic crisis since the war," Kaoru Yosano, Japan's economic and fiscal policy minister, was quoted as saying in the *FT*.

**Ponzi scheme busted**

► Japanese police have arrested Kazutsugi Nami, head of a bedding company, and 21 others suspected of operating a US\$2.5 billion Ponzi scheme, the country's largest-ever fraud, the *FT* reported. Authorities said the suspects promised investors annual interest of 36 percent and to double their capital in three years. Media reports said the company collected anywhere from ¥126 billion to ¥226 billion between 2001 and 2007.

**U.K. FRC chief steps down**

► Paul Boyle, chief executive officer of the U.K. Financial Reporting Council, is stepping down, *accountancyage.com* reported. He had been head of the accountancy watchdog since 2004 and will remain in the post until a successor is named.

**SEC extends comment period for IFRS roadmap**

Extension could delay early IFRS filing option for large U.S. companies



Photo: Reuters/OTHK

**U.S. SEC Chairman Mary Schapiro**

► The U.S. Securities and Exchange Commission is giving finance executives two more months to comment on a proposed timeline for all U.S. public companies to switch to International Financial Reporting Standards.

The original 19 February deadline has been pushed back to 20 April and the move could impede larger U.S. companies from getting a head start on applying

IFRS to their U.S. filings later this year, *CFO.com* reported.

SEC officials decided to extend the deadline following requests from financial executives – many of whom were busy finishing up their quarterly filings – saying they needed more time to consider the commission's 165-page proposal, the report said.

The extension is one of the factors causing a slowdown in replacing U.S. GAAP with IFRS as America's main accounting language since former SEC Chairman Christopher Cox unveiled the timeline in late August. The SEC has been busy responding to the financial crisis and repairing its reputation from Bernard Madoff's US\$50 billion Ponzi fraud scheme, which led to the departure of Linda Chatman Thomsen, the regulator's enforcement chief, in early February. She came under fire from U.S. lawmakers for failing to catch Madoff's scam.

The SEC is adjusting to new leadership under Mary Schapiro, who replaced Cox as chairman in late January and has a number of concerns about the approach to adopting IFRS, according to *CFO.com*.

"I will not be bound by the existing roadmap that's out for public comment," Schapiro said during her U.S. Senate confirmation hearing. She expressed reservations about the independence of the International Accounting Standards Board and the quality of international accounting rules.

In another development, a new oversight board that includes members of the SEC has been formed to review the work of the IASB trustees.

The trustees will now be held accountable to the new monitoring board, which also includes members of the International Organization of Securities Commissions, the European Commission and Japan's Financial Services Agency, *CFO.com* reported.

## Premier Wen pledges to look at new stimulus measures

China's premier makes European visit, vows to boost Chinese economy

► Chinese Premier Wen Jiabao has wrapped up a European tour with pledges to stimulate China's economy and fuel consumer spending following concerns that a sharp decline in the Asian giant will be felt worldwide.

"We may take further new, timely and decisive measures. All these measures have to be taken pre-emptively before an economic retreat," Wen told the *Financial Times* in London during his U.K. visit in early February.

Wen's tour, which also took him to Switzerland, Germany and Spain, aimed to reassure China's trade partners that Beijing would join in global efforts to tackle the world economic crisis.

On the home front, Beijing is fighting a tough battle, with its economic growth slowing sharply to 6.8 percent in the fourth quarter of last year. In addition to a four trillion yuan fiscal package introduced late last year, Wen said

Beijing would boost infrastructure spending and give handouts to consumers to ensure that China will keep its economic growth at around 8 percent this year, the report said.

Amid accusations by U.S. Treasury Secretary Tim Geithner that China was "manipulating" the value of its currency against the greenback, Wen said Beijing intended to keep its currency stable but declined to rule out the possibility of devaluing the yuan. "If we have a drastic fluctuation in the exchange rate of the yuan, it would be a big disaster," Wen told the *FT*.

Wen also played down hopes that Beijing would lend part of its massive foreign reserves to the International Monetary Fund and the World Bank. In fact, China's foreign reserves rose only by US\$40.4 billion in the fourth quarter to US\$1.9 trillion, well below the total trade surplus and foreign direct

investment recorded in the same period, indicating a substantial outflow of short-term capital, the *FT* said.

Foreign direct investment also fell for the third month in December, dropping 5.7 percent to US\$5.98 billion compared to the same month in 2007, while consumer inflation dropped to a 30-month low at 1 percent in January, in great contrast with the 8.7 percent inflation recorded in February 2007, according to the *South China Morning Post*.

With many export-oriented manufacturers shutting down, the global economic crisis is hitting China's rural workforce hard. More than 20 million rural migrant workers, or 15.3 percent of the total number of migrant workers, had lost their jobs and returned home by the start of the Chinese New Year on 25 January, the *FT* reported.

## Higher than expected Hong Kong budget deficit

By Naomi Martig

► PricewaterhouseCoopers is predicting that Hong Kong's final budget deficit for 2008-09 will stand at around HK\$50 billion, nearly seven times more than the government's original estimate of HK\$7.5 billion.

"The global economic slowdown is beginning to have an impact on Hong Kong's fiscal results," said Tim Lui, a tax partner at PwC Hong Kong.

He attributed the large deficit projection to reduced profits tax and salaries tax collections, and shortfalls in land revenues and stamp duty.

Ernst & Young, meanwhile, is

predicting a budget deficit of about HK\$7.2 billion this fiscal year, sharply lower than the HK\$75 billion prediction it made in December.

Owen Chan, an E&Y tax partner, said the discrepancy was mainly because the firm overestimated the number of people who applied to delay paying their taxes, resulting in a HK\$20 billion difference, and that the government spent HK\$30.8 billion less than its original estimate.

Deloitte also revised its earlier forecast of a HK\$80 billion deficit and predicts a surplus of HK\$10 billion

due to an increase in profits tax and salaries tax.

David O'Rear, chief economist of the Hong Kong General Chamber of Commerce, said the latest estimates are so scattered partially because both profits and salaries taxes are not due until the last quarter of the financial year, making projections difficult.

"The financial secretary has a tremendous amount of leeway to move money in and out of various funds, which have the effect of increasing or reducing the surplus or deficit, so there is lot of room to manoeuvre," he added.

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## Trading blackout rules softened

Hong Kong stock exchange yields to pressure from tycoons and listed companies

By Helen Luk

▶ The Hong Kong stock exchange's listing committee has drastically watered down a planned extension of a blackout period barring directors from trading stocks in their own companies, following strong opposition from tycoons and 230 listed companies.

The committee originally proposed precluding directors of listed companies from trading their companies' shares for up to seven months but took a U-turn on 13 February.

Under the revised proposal, directors will be forbidden from trading their companies' shares ahead of annual

earnings announcements for two months instead of one, while the blackout period on interim results remains unchanged at one month.

Paul F. Winkelmann, the Institute's president, expressed disappointment at the exchange's latest move. "The proposal now equates to almost no change," he said.

The committee has also backtracked on a related proposal to introduce quarterly reporting for listed companies by 2011, saying the issue is now "a long-term goal." HKEx's chief executive, Paul Chow, told the *South China Morning Post* that the exchange would draft a consultation paper within two months and seek views from the market in June.

## PwC: A return to "nouveau classic" banking model for financial institutions

By Reggie Rathour

▶ Financial institutions have to get back to the basics if they want to emerge as winners from the financial crisis, said Nigel Voogth, financial services central cluster leader of PricewaterhouseCoopers.

"To survive, they (banks) will need to make some very tough decisions in reshaping their business models and cost bases in the face of increasingly scarce financial resources," Voogth told a news conference in Hong Kong last month.

In a report entitled, "The day after tomorrow," he said banks will have to adapt to a business environment shrouded with government interference in order to survive.

For example, in response to U.S. President Barack Obama's move to cap executives' pay, banks should come up with rewards more aligned with corporate objectives and respond intelligently to government pressure, Voogth said.

In reshaping their businesses for the future, banks will return to a more standard banking model, which will be more risk adverse and transparent, he said.

Regulation is expected to tighten across the board, but a two-tier financial services system will likely develop: Banks and investment banks will be tightly scrutinized, while hedge funds, private equity and real estate industries will be given more of a free rein but will still face heavier regulation than in the past.

## Unemployment rate rises to 4.6 percent

By Naomi Martig

▶ The global financial crisis has taken its toll on Hong Kong's workforce. The latest government figures showed the territory's unemployment rate rose to 4.6 percent in the November 2008 to January 2009 period, from 4.1 percent in the October to December period last year.

The number of unemployed jumped to 157,700 between November and January, from 141,300 in the October to December period. A government spokesman said the financial crisis has led to job losses across-the-board and the labour market will remain weak.

Hong Kong's accounting sector, however, seems to be less affected, with a recent survey by recruitment firm Robert Half International showing one third of accounting and finance firms saying they will continue to hire in the first half of this year.

Kenny Tam, who runs his own accounting firm, said the number of insolvency jobs has increased, but general practice "is a lot less rosy." Still, he said his firm is planning to employ more people this year, though he declined to disclose exact figures.

Wong Lung-tak, managing practising director for Wong Lam Leung & Kwok CPA Ltd., told *Ming Pao* that small and medium sized accounting firms may find it easier to recruit talents because of the economic downturn and his firm will be hiring more people.

In other sectors, however, hiring expectations are now at their lowest level since the fourth quarter of 2001, according to recruitment firm Hudson. Of the 812 Hong Kong executives the firm surveyed in January, the number of employers planning to cut headcounts jumped to 11 percent in the first quarter of this year from 1 percent in the last quarter.

# PCCW's privatization plan sparks controversy

Analysts say buyout plan could be delayed by up to three months



Photo: Reuters/OTHK

▶ The Securities and Futures Commission is investigating allegations of vote buying in PCCW's HK\$15.9 billion privatization plan, which could delay the deal by up to three months, according to the *South China Morning Post*.

PCCW minority shareholders have already voted in favour of a buyout offer from Pacific Century Regional Developments and China Unicom during a general meeting on 5 February. But hundreds of irate shareholders objected to the HK\$4.50 per share offer from the company's chairman, Richard Li.

The SFC confirmed that regulators had seized voting documents from the meeting, but refused to comment on the case, saying it had begun an investigation into the takeover scheme, the *Financial Times* reported.

The probe was sparked off by shareholder-rights activist David Webb, who alleged that hundreds of Fortis Insurance sales agents were each given 1,000 PCCW shares in return for voting in favour of the deal, *SCMP* said.

The privatization scheme needs the endorsement of the High Court, which was scheduled to hold its first hearing on 24 February.

A securities analyst told *Bloomberg* that the SFC's investigation could derail the deal if evidence of vote rigging was found. The *Post* quoted a finance expert at The Chinese University of Hong Kong, Raymond So, as saying that the privatization could be pushed back by up to three months until the regulator completes its inquiries.

A PCCW spokeswoman said the company had "no knowledge of any improper share transfers made by shareholders." She said the company would cooperate with SFC investigators, *SCMP* reported.

Meanwhile, Leung Ting-to, a spokesman of PCCW Employees General Union, expressed concern that the company would cut more than 600 full-time jobs from various departments, *SCMP* reported. Some disgruntled contract staff agreed to a 2 percent pay reduction with an assurance that they could retain their jobs, the newspaper said.

## news digest

### »»China

#### Taiwan's ex-first lady pleads guilty

▶ Wu Shu-chen, the former first lady of Taiwan, pleaded guilty at a hearing in Taipei on 10 February to forgery and laundering US\$2.2 million, *The Associated Press* reported. But she denied embezzling money from a special presidential fund and taking bribes in connection with a land deal and a government construction project. The case against Wu is part of a complex web of charges that also involves her husband, her son, daughter-in-law and brother.

#### Tycoons' fortunes evaporate

▶ The fortunes of Hong Kong's richest have plunged, according to a *Forbes* report released last month. The total wealth of the city's 40 richest dropped to US\$82 billion from US\$179 billion last year and only 19 of them are still billionaires. The report said the "biggest loser" was Macau casino mogul Stanley Ho, whose net worth fell 89 percent, from US\$9 billion to US\$1 billion. Hong Kong's richest man, Li Ka-shing, maintained his top position even after losing half of his fortune from US\$32 billion to US\$16.2 billion.

#### HKEx curbs closing auction prices

▶ The Hong Kong stock exchange has limited the movement of share prices during its 10-minute closing auction session to 2 percent in either direction, pending approval by the Securities and Future Commission, *The Standard* reported. The move follows objections from investors of high volatility during the session when share prices in some cases have moved by 30 percent in either direction.

#### China drafts stock-index futures trade rules

▶ The China Financial Futures Exchange is working out rules for so-called "qualified investors" in stock-index future contracts to deal in equity-based derivatives, *SCMP* reported. The exchange has reportedly started outlining a system aimed at ensuring that only qualified players can engage in trading index futures when they are introduced. It was reported last year that only investors with deposits of one million yuan or more in a brokerage account would be eligible to trade in the derivatives.