

# The Institute at

# 40

Cocktails celebrating the formation of the Hong Kong Society of Accountants at the Hong Kong Hilton, 6 February 1973. From left: E.J.V. Hutt, Gordon Macwhinnie, F.S. Li, A.R. Hamilton, Sidney Gordon, M.W. Kwan, Peter Poon Wing-cheung, A. Thorne, Henry M. Yuen, W. Parker and Ronald F.S. Li



In the first of a series commemorating the Institute's 40th anniversary, *A Plus* looks at what prompted Hong Kong's accounting pioneers to create an organization to build the profession

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**T**he 1960s were an exciting time to be in Hong Kong, but not always in a good way. The British colony lurched from financial boom to bust. Banks were set up then sank swiftly. Property prices see-sawed. China endured the convulsions of the Cultural Revolution, while elsewhere in Asia, war and rebellion loomed.

The city's accounting profession, in its own quiet way, was also in a period of chaos with a mad mixture of qualifications, standards and oversight.

If Hong Kong was to make the kind of progress towards a global financial hub that many accounting visionaries foresaw, there would have to be dramatic changes. The changes that unfolded led to the formation, 40 years ago, of the Hong Kong Society of Accountants, the august body that we now know as the Hong Kong Institute of CPAs.

Over the next four decades, the international standards of reporting, auditing and governance that the Society – and then the Institute – developed played a pivotal role in Hong Kong's success story. It made the city one of the most efficient, respected and trusted business environments in the world. In short, it transformed the city from a colonial harbour town into the financial giant we know today.

### Scrappy origins

At the dawn of the 20th century, the future didn't look all too promising for Hong Kong. Shanghai, after all, offered a more educated population, a more convenient location and relatively little government interference following the decline of imperial power.

By the 1910s, Shanghai had become a significantly more important trading port than

Hong Kong. With the transfer of British naval power to Singapore, Hong Kong risked becoming a backwater, with small-scale manufacturing of piece goods.

Still, most of the multinationals in Shanghai's International Settlement were incorporated in Hong Kong and the colony's accountants did their books. “Shanghai in those days was where the main business was, but because of the lack of basic state infrastructure, all the companies were incorporated and registered in Hong Kong,” recalls Peter H.Y. Wong, the son of Peter Wong senior, who cofounded the accounting firm Wong, Tan & Co. in Shanghai in 1928. (Wong junior later went on to become a president of the Hong Kong Society of Accountants.)

The Institute of Chartered Accountants in England and Wales had been established in London in 1880 and some of its members were – like most accountants in Hong Kong then – hired by businesses. Butterfield & Swire, a trading house or *hong* with bases in Shanghai and Hong Kong, employed one ICAEW member, Arthur Lowe, in 1898. Lowe, foreseeing the importance of Hong Kong in commerce and the role that accountants would play in its success, resigned to establish his own accounting practice in 1902. He became Hong Kong's first professionally qualified, full-time practising accountant.

The 1920s and 1930s saw the rise of the Hong Kong manufacturing industry – and a shift from handmade to machine-made products – benefiting from the decline in European manufacturing and tariff breaks within the British Empire.

Hong Kong started assuming a more regionally prominent role in the 1940s, after the Japanese invasion and World War II. Western and Chinese companies abandoned Shanghai as the Communists gained the upper hand during China's civil conflict.

“The whole firm moved down to Hong Kong starting in '46 when he saw very clearly that the Communists were moving in and under their system there was no room for professional accountants,” recalls Wong, referring to his father and his firm.

Indeed, as Paul Gillis, now a visiting scholar at the Guanghua School of Management at Peking University, noted: “The Communists [had] fully nationalized the economy by 1962 and abolished auditing by public accountants. The profession did not exist in China for the next 18 years.”

Industrialization in Hong Kong accelerated from the 1940s onwards, with the inflow of refugees, entrepreneurs and capital fleeing the civil war on the Mainland.

When the 1960s arrived, as Asia-Pacific economies developed and Western companies sought to expand beyond mature markets in Europe and North America, Hong Kong found itself poised to become the regional base for financial services. The territory had a British legal system, as well as a history as an entrepôt that had already built up service sectors such as shipping, logistics and insurance.

Throughout the decades that Hong Kong was burgeoning, it was only natural that companies would require bookkeepers, accountants and auditors to make sure everything was adding up.

### Early accounts

To serve the multinational corporations and institutions that came to set up in Hong Kong, an accounting sector started to develop in the city from the turn of the 20th century. Lowe's firm – which became Lowe Bingham & Matthews – and leading international accounting firms such as Peat, Marwick, Mitchell & Co., offered auditing and accounting services that generally followed



British standards and practices.

Meanwhile, many local companies that kept books in Chinese followed their own bookkeeping methods – usually handwritten in ledger books – and were audited to varying standards by local accounting firms. Balance sheets were far and few between.

Ham-fisted attempts by the government to improve financial reporting standards, such as an 1911 edict demanding that all companies keep English-language records, were howled down or ignored. (Eventually, companies were allowed to record accounts in Chinese and a journal and cash-flow statement in English.)

In 1913, in another attempt to tidy up the accounting sector, a formal system for examining auditors was established. The 17 or so successful candidates in the first examination formed the Hong Kong Chinese Auditor Research Society (which is today called the Society of Chinese Accountants and Auditors).

The system bumbled along more or less unchanged – apart from being split into Chinese and English parts in the 1930s – until World War II. With the world descending into conflict, the government decided it needed to collect more taxes for a war fund. Its efforts, however, were hampered by the still poor quality of bookkeeping of many local companies. In response, the Registrar of Companies sought the advice of the Hong Kong Chinese Auditor Research Society (which had then been renamed the Institute of Chinese Auditors).

But shortly after 8 a.m. on 8 December 1941, the Japanese invaded Hong Kong and the matter was put on hold.

After the war, the government picked up where it had left off, keen to increase oversight of the accounting sector. Auditor qualifications were reorganized under the Companies Ordinance, creating so-called “part one” auditors for English-language accounts and “part two” for accounts kept in Chinese. The ordinance also in effect made the Registrar of Companies, as chairman of the Authorized Auditors Board which was set up in 1952, the *de facto* regulator of auditing.

“If you had an overseas qualification, such as a chartered accountant, you were automatically enrolled as an authorized auditor part one,” recalls Marvin Cheung, now chairman of the Airport Authority Hong Kong, then a young accountant at Peat Marwick, who had qualified as a chartered accountant in London in 1969. “That means you were licensed to [audit] companies maintaining

their records in English,” adds Cheung, who later went on to become president of the Hong Kong Society of Accountants.

The accountants covered in part two had a range of qualifications, from fully qualified accountants to self-taught bookkeepers. Chinese accountants returning to Hong Kong from overseas were enrolled as part two auditors through a personal interview.

“You had to be interviewed by the elders of the profession,” recalls Cheung. “I duly met with the father of Peter Wong, Peter Wong senior, and the father of Selwyn Mar, Charles Mar Fan, one evening after work. They asked me to read a Chinese newspaper, interpret a Chinese invoice and we generally chatted for half an hour or so. Then they said, ‘Yes, good enough,’ so I was authorized.”

Such differing practices did create a cultural gulf between the two types of accountants in Hong Kong at the time, but veterans say the differences between Chinese and non-Chinese accountants were based on qualifications. “There wasn’t hostility or any open racial prejudice,” says Selwyn Mar (who also went on to become president of the Hong Kong Society of Accountants).

Standards were generally adopted from the United Kingdom. “Because Hong Kong was a British colony, we faithfully – I wouldn’t say blindly – followed the pronouncements issued by the chartered accountants in London and adapted them to Hong Kong circumstances,” says Wong.

The Companies Ordinance, which drew heavily from the British Companies Act 1929 and its 1948 and 1967 revisions, became the principal legislation governing accounting in the colony. “Today, accounting standards is a book of a few thousand pages of small print,” says Cheung. “At that stage it was three pages or something.”

Much of what accountants take for granted now hadn’t been thought of as late as 1970. “When you had a group of companies there was no requirement to prepare group accounts, just the holding company account, so you had no idea what the group was doing,” recalls Cheung.

Few accountants qualified for part one under the Companies Ordinance, because becoming a qualified accountant usually involved the expense and time of studying overseas and working as an articled clerk to an accounting firm in the U.K. “You had to go to Britain to become articled and qualified,” says Wong. “Obviously there were some very

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While most qualified in England, a few chose to study in Scotland or Ireland. “I became the first Chinese member of the Institute of Chartered Accountants of Scotland,” recalls Sanford Yung, a founding member of the Society who retired as senior partner of Coopers & Lybrand (later PricewaterhouseCoopers) in 1992.

Some Hong Kong accountants took correspondence courses and obtained recognition from the Association of Certified and Corporate Accountants, the Association of International Accountants and the Institute of Cost and Works Accountants in the U.K. or the Australian Society of Accountants, which ran examinations in Hong Kong.

“At that time, no formal teaching classes were offered by universities or technical colleges, although some evening classes for the Australian Society of Accountants qualification were offered by Hong Kong Technical College [which later became Hong Kong Polytechnic],” recalls K.K. Yeung, who went on to become a founding member of the Hong Kong Society of Accountants. “Some audit firms reimbursed half of the tuition fee.”

The basic knowledge was obtained from correspondence courses from organizations such as Rapid Results College in London. (Despite its dubious-sounding name, Rapid Results – now RRC Training – enjoyed a good reputation from its founding in 1928.)

However, Yeung adds that most auditing knowledge and skills were learned on-the-job from mentors. He likens the relationship

to that of the masters and pupils of the famous Shaolin Temple. “It was just like *kung fu* training.”

For would-be chartered accountants who could afford to travel to London, other obstacles awaited. Cheung recalls that just a few children of his father’s friends qualified. Many simply found that the delights of London in the Swinging Sixties were too tempting.

“In those days you became an articulated clerk – a trainee – and then you were supposed to self-study,” he says. “So if you did not have the discipline to finish work and go home instead of watching TV or relaxing or going out, you didn’t have any chance of passing.”

Cheung says some of the students found that coming from a well-heeled family was disadvantageous. “Having money in your pocket was actually a negative factor because you would feel you could have a meal out or a night out. If you had no money, like me, you had no option. You go home and you start reading your textbook.”

### Mood for change

Back in the 1960s, Hong Kong was in a state of flux. The decade was marred by social riots, the first triggered by a fare rise for the Star Ferry, as pent-up dissatisfaction towards cramped living and harsh working conditions of the general population boiled

to the surface.

It was a decade of contrast. In a sign of growing affluence, the new Prince’s Building and the Mandarin Oriental were erected. But in a sign of a growing rich-poor divide, refugees from the Mainland built ramshackle squatter homes on government land. Manufacturing was booming, with new arrivals providing cheap labour for textile and garment factories set up by entrepreneurs. Meanwhile, Beatlemania reached Hong Kong, culminating in the band playing the Princess Theatre in Kowloon in 1964.

The accountants, too, sensed it was time for change, if the profession was to help Hong Kong change its rollicking, free-wheeling potential into a steady, long-term success story. Many visionary accountants saw that, if the city wanted to become an internationally respected business centre, its accounting needed to be lifted to international standards. What Hong Kong needed, many started to agree, was a professional and regulatory body with the power to standardize, oversee and uplift the profession.

“I think the mood was about learning from other countries,” says Mar, who was also a Society founding member. “Other countries had regulated bodies, licences and so on, and we thought, why don’t we do the same thing?”

Another driving factor for change was the spate of bank crashes in the early 1960s. Liu

Chong Hing failed in 1961, creating widespread panic. A government inquiry recommended new liquidity requirements, which formed the basis of the Banking Ordinance of 1964.

However, 1965 brought more bank failures and runs. Ming Tak Bank failed first, followed by Far East Bank, Wing Lung Bank, Dao Heng Bank and Canton Trust and Commercial Bank. The ensuing panic prompted a run on Hang Seng Bank, leading to its takeover by the Hongkong & Shanghai Bank (now HSBC) in 1965.

To what degree bad accounting was to

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Henry M. Yuen (registrar) and Gordon Macwhinnie (president) at the Hong Kong Society of Accountants’ first annual general meeting at City Hall, 7 September 1973

blame remains a subject of debate. In any case, these events prompted the amended Banking Ordinance of 1967, under which only British- and Australian-qualified chartered accountants could sign off on the accounts of banks.

Hong Kong, which was already in short supply of accountants because of the fast-growing business community, suddenly needed more of them. The lack of trained accountants was holding back the city – companies sometimes had to wait weeks for their books to be audited.

“Because of the improvement in the business climate, the demand for accountants was clearly increasing,” Cheung remembers. “Peat Marwick and Lowe Bingham were hiring overseas qualified accountants every year in increasing numbers,” he adds. “The partners in the firms were muttering, ‘We need an accountancy profession, and we need the universities to train local accountants, otherwise we won’t have enough of a supply.’” Hong Kong, everyone agreed, needed to start producing its own qualified accountants.

Many were also worried what might happen if overseas accounting bodies suddenly withdrew recognition for Hong Kong accountants. All auditors under part one of the Companies Ordinance could become without qualification in a stroke.

## Gathering support

The trigger that led to the first big step towards creating a professional and regulatory body occurred in 1966 – on the back of bad news.

The Commissioner of Inland Revenue, Arthur Duffy, received another complaint from his staff about the poor quality of corporate tax returns – he decided it was one too many. Out of patience, he summoned leading accountants to see how the problem could be resolved.

Partners at Peat Marwick and Lowe Bingham & Matthews were used to being consulted by the government. “Whenever the Hong Kong government asked for advice or comments on legislation, the Association of Chartered Accountants basically got together a few of the partners, sat down and wrote a comment,” Peter Wong says. “It was almost exclusively the chartered accountants who gave that advice.” The profession giving advice to the government has a long tradition since then.

By 1966, there were about 200 British- and Australian-qualified chartered accoun-

tants in Hong Kong. Though they gathered as the Association of Chartered Accountants in Hong Kong, the group is remembered mostly for its social agenda.

“We would meet monthly over lunch, we would have a lunch at the Hong Kong Club, and we would have a golf tournament in the winter and a golf tournament in the summer,” recalls Cheung, who was railroaded by the then senior partner at Peat’s, Gordon Macwhinnie, into serving as honorary secretary.

Duffy’s complaint was taken to the Executive Council, and negotiations with the Association of Chartered Accountants led to the creation of the Accountants’ Working Party. The working group was given the mandate of exploring the possibility of developing a more formal and standardized accounting sector in Hong Kong.

In April 1966, at the old Alexandra House in Central, Duffy and his Inland Revenue Department colleague A.G. Hutchinson, as well as F.S. Li, Charles Mar Fan, C.G. Smith and M.W. Kwan gathered to convene the first meeting of the working group. Many were excited that the new working party was an opportunity to finally create a body with the power to regulate the profession, lift Hong Kong’s accounting standards up to international levels and develop an accounting qualification that young Hong Kong people could strive to achieve.

Golf outings alone would not do. “We were all very keen to develop a Hong Kong profession with a Hong Kong qualification,” recalls Wong.

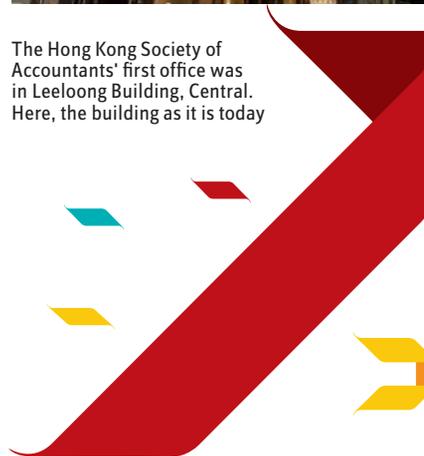
The working group started planning in earnest. It envisaged creating a body that governed the profession so rigorously that the accounting sector would become self-governing and independent from the government – similar to the organizations that existed in the U.K. and Australia.

That same year, a prior worry for the Hong Kong profession became a reality. The Australian Society of Accountants announced it was withdrawing its training and accreditation systems from Hong Kong. This turn of events made everybody in the Accountants’ Working Party even more anxious to have Hong Kong establish its own accounting body.

In July 1967, in an encouraging move, a government working party was formed to work with the accountants to draft the necessary legislation, which would give the new body statutory powers to register and grant practising certificates. The government appeared keen to progress forward too.



The Hong Kong Society of Accountants’ first office was in Leeloong Building, Central. Here, the building as it is today





Conference room and library in Leeloong Building

**“They particularly liked to show off the HKSA logo and the impressive certificates that they displayed in prominent places in their offices.”**

In that same month, another talented and prominent accountant, Peter Poon Wing-cheung, joined the working party. Poon ran his own practice and, importantly, had experience heading other accounting bodies, through his previous chairmanships of the Society of Chinese Accountants and Auditors, and the Hong Kong group of the Australian Society of Accountants. Poon would later go on to become a president of the Hong Kong Society of Accountants.

Later that year, Macwhinnie joined the working party, replacing Brian Hart, his senior at Peat’s who was planning to retire. Macwhinnie, an Irish-born former British army officer, had joined the firm in Hong Kong in 1950 after briefly running Stanley prison while it was full of interned Japanese soldiers. At 44, Macwhinnie was seen as one of the profession’s brightest young stars.

Sure enough, by the time he was 45, Macwhinnie was given the top job at Peat’s. With his relative youth and unflinching passion, he drove the working party towards its goal. Plenty had to be done: the new accounting body needed a constitution, disciplinary powers and entry criteria for students.

In the autumn of 1970, Macwhinnie became the working party’s chair. With Poon’s help, Macwhinnie sought the support of prominent Chinese peers who ran their own firms. Most readily agreed to the idea of a uniform institution. He soon also found encouragement from rank-and-file Chinese practitioners. “At that time, the local Chinese accountants were out on a limb,” Macwhinnie told *A Plus* in 2006. “They were desperate to get qualifications, so they didn’t need to be encouraged by me.”

The local accountants were also reassured that their rice bowls were not being put under threat. Many didn’t hold memberships with overseas accounting bodies and were

concerned that they would be excluded from being recognized by the new professional body in Hong Kong.

While they might not have held professional qualifications, they had been licensed some years earlier by the Authorized Auditors Board and generally did a good job of offering accounting services to local companies. A compromise had to be reached and it was agreed that under a new system they would be called Public Accountants, while professionally qualified practitioners would be called Certified Public Accountants.

### **Becoming a reality**

In 1972, after more than six years of to-ing and fro-ing – and plenty of elbow grease – it was finally time to move full steam ahead with the legislation. First, a bill had to be drafted with the help of the government’s Legal Department. Officials turned to the drafting talents of a promising young barrister in government service, Henry M. Yuen, to help draw up what would become the Professional Accountants Bill.

The bill was debated in the second half of 1972. Graham Sneath, the Hong Kong solicitor-general, told the Legislative Council: “The main purpose... is to establish in Hong Kong a society of accountants, and to give it statutory responsibility not only for maintaining a register of duly qualified accountants and for regulating their professional conduct and practice, but also for their training and examination.”

It was a far-reaching piece of legislation but Hong Kong’s rulers were of a mind in seeing it through. The idea of the bill had the broad support of the Executive Council and LegCo. After an initial draft was prepared, Oswald Cheung, then an unofficial Chinese member of LegCo and a leading barrister, honed the language of some of the text and helped to

guide it through the legislative procedure.

Addressing LegCo in November 1972, Denys Roberts, then attorney-general and later chief justice, reported that the Professional Accountants Bill 1972 had passed through the committee stage with its amendments. The bill was then read for the third time – a legislative formality – and passed.

The Professional Accountants Ordinance became part of the law of the colony. The Hong Kong Society of Accountants came into being on 1 January 1973. And the term Certified Public Accountants became official. The term wasn’t new – the American Institute of CPAs had come into being in 1887 – but its adoption here prompted Roberts to quip: “I am inclined to think that it would be extremely dangerous to argue with any body of men which is happy to have itself described as certified!”

The first members of the newly minted Society, of which Macwhinnie was the first president, were delighted, recalls K.K. Yeung. “The members were very motivated and united about the formation of the HKSA,” he says. “They particularly liked to show off the HKSA logo and the impressive certificates that they displayed in prominent places in their offices.”

However, the Society faced a number of challenges and the first was to find a registrar up to the task. “Philip Haddon-Cave [Hong Kong’s financial secretary] and the Society were desperate about having to appoint a registrar,” Yuen recalls. “I was told they were hunting around the world, including down to Malaysia and South Africa and America, and they couldn’t find anybody.”

Given his legal background, Yuen was an obvious candidate. At the time, he had also been earmarked for a high position in the civil service, having been part of the first cohort of 18 cadets admitted as executive officers in the civil service in 1966. (A fellow

cadet was Donald Tsang, later to become Hong Kong's chief executive.)

"I was in the Omelco office – the Office of Members of the Executive and Legislative Councils – and somebody comes in and says, 'Henry, phone.' It was Haddon-Cave." The financial secretary offered him the choice of taking the appointment as registrar or being seconded to the Society.

Yuen was only 27 at the time and a barrister with little experience. "There were about 20,000-odd civil servants and I was just one of many climbing the ladder," he says of that time.

"You work for a new organization with no guaranteed prospect and that is a real challenge but you are given a chance to work with the top boys like Gordon [Macwhinnie] – it was a real opportunity," he recalls of the registrar job.

Yuen says the entire budget for the entire formation of the Society, including recurrent capital, was a modest HK\$200,000. "That's not enough for a messenger's payroll nowadays," says Yuen, who quickly put his legal training to extensive use. "There was so much subsidiary legislation and bylaws to write."

The big firms threw their support behind the fledgling Society and its young registrar. "Gordon used his position to make the resources of Peat Marwick available to the Society, so the first registrar's office was in our office," says Cheung. "I didn't know about finances but I'm sure he probably underwrote it."

As a founding member, Yeung recalls the many challenges for the new Society. "[The Society needed] to build up training, accreditation and examination facilities," he says. "The next challenge was how to ensure a balance where rules, systems, norms, standards and compliance would not overwhelm ethics and striving for excellence."

Peter Wong was also volunteered into the Society. "My father put me on one of the committees... and I very quickly became the chairman of the auditing standards and accounting standards committee," he says. In addition, Wong, Tan & Co. became the Society's first auditors.

Yuen recalls that he received a "small salary." However, he says it wasn't the money that drove him in those early days. "Immediately, I fell in love with the job."

It took experience, professionalism and determination to bring the Society into existence, but a little love would make it blossom. **A**

### Logo of the Hong Kong Society of Accountants\*

**Weighing scales** representing the accountant's job of fair and accurate measurement.

**Computer punchcard** was chosen over an abacus, because it was seen as more modern. But, ironically, it was the part of the logo that became outdated the most quickly.

**Key** to show that accounting is a key element to society and helps the community access its potential.

**Mountains and ships** to reflect how Hong Kong was a coastal settlement that had developed into an important port.

**Machinery cogs** to represent how accounting was an integral part of business, which in those days was mainly manufacturing.

\* This logo was used for more than 30 years, until 2004 when the Society was renamed the Hong Kong Institute of Certified Public Accountants.