THE VIEW FROM WASHINGTON

Public Company Accounting Oversight Board Chairman James R. Doty explains his agency’s pursuit for audit quality worldwide
Ensuring a smooth transition for members

Dear members,

The government’s consultation on improving the regulatory regime for listed-entity auditors will end on 19 September. We are delighted to see that several issues raised during our member consultation have been addressed in the public consultation document. Moving forward, we will continue to engage with our members to work on those proposals that have not been taken up.

We appreciate the efforts made to include assurances that all enforcement and discipline will be carried out under due process. However, we believe that further details on how the system will work should be provided. The consultation proposals imply that the Financial Reporting Council may possibly be charged to make all decisions on inspection, investigation and disciplinary outcomes. This will not be the optimal arrangement and may compromise the assertions about separation of inspection and disciplinary functions.

The maximum penalty of HK$10 million is significantly higher than the maximum under the existing regime. Many members have expressed concerns that it is too high and will act as a deterrent to medium-sized firms staying in or entering the listed-company audit market, which will lead to further concentration.

“Penalty capping at the greater of HK$10 million or three times profit gained or loss” is a measure lifted from the regulatory regimes applicable to the securities, banking, mandatory provident fund and insurance sectors. The auditing profession is different in that we are not market participants - we do not sell financial products or hold client assets. We provide services to listed companies in the same way as, say, a lawyer provides legal services. Thus, we believe that copying the sanctioning regime from the financial regulatory models is not appropriate.

The source of funding for an independent oversight body is likely to be another subject of debate. There is a significant change in the latest consultation in that listed-company auditors are enlisted as another funding body of the FRC in addition to listed companies and investors. There is no expectation from our members that they need to contribute. Audit regulators around the world are funded in a number of ways. However, the auditing profession should not be perceived as able to exercise undue influence on the independent regulator through funding. For the benefit of all proposed funding parties, we encourage the government to at least provide an estimated quantum of the expected operational costs under the new system.

We will continue to engage with members and other key stakeholders to help establish an independent listed-entity audit regulatory system that is globally recognized, meets the public interest and helps sustain Hong Kong’s status as an international financial centre.

Awareness, planning and implementation of succession has become a growing concern among practising CPAs with the retirement of many in the “baby boomer” generation born between the mid-1940s and the mid-1960s.

To find out more, the Institute last month asked members about their succession plans in a joint global survey with the Global Accounting Alliance, of which the Institute is a member. The survey will help us better understand members’ awareness of succession planning and the merits it offers. We hope to offer some initiatives to the benefit of our members after analysing the results. A feature in this issue of A Plus offers a wider perspective on planning for a smooth transition. It is worth reading.

Another global issue close to us is the evolving complicated development of tax and its regulation. Recognizing that a deeper knowledge of taxation would help make our members more competitive in the market, the Institute launched the Advanced Diploma in Specialist Taxation in 2012. We as accountants have always been a key player in tax, which is one of our core competencies. Our aim is to advance this discipline to help members add value.

Equipping our members to succeed in their respective businesses is a major area in the Sixth Long Range Plan and we will continue to do so.

Clement Chan
President
## CONTENTS

**ISSUE 8 VOLUME 10 AUGUST 2014**

### REGULARS

<table>
<thead>
<tr>
<th>Page</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>02</td>
<td>President's message</td>
</tr>
<tr>
<td>05</td>
<td>Institute news</td>
</tr>
<tr>
<td>08</td>
<td>Accounting news</td>
</tr>
<tr>
<td>10</td>
<td>Business news</td>
</tr>
<tr>
<td>12</td>
<td>Companies news</td>
</tr>
</tbody>
</table>

### FEATURES

<table>
<thead>
<tr>
<th>Page</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>America's advocate</td>
</tr>
<tr>
<td></td>
<td>James R. Doty, Chairman of the Public Company Accounting Oversight Board, tells George W. Russell about his agency’s mission and goals</td>
</tr>
<tr>
<td>20</td>
<td>Quest for continuity</td>
</tr>
<tr>
<td></td>
<td>George W. Russell reports how companies need to develop succession plan to ensure shareholder value is maintained</td>
</tr>
<tr>
<td>26</td>
<td>The next wave</td>
</tr>
<tr>
<td></td>
<td>China's technology companies are using innovation to dramatically transform the economy. George W. Russell looks at the repercussions</td>
</tr>
<tr>
<td>32</td>
<td>Success ingredient</td>
</tr>
<tr>
<td></td>
<td>Jemelyn Yadao asks George Liu, Asia-Pacific Chief Financial Officer of Savills, about the local property market and the chances of a correction</td>
</tr>
<tr>
<td>38</td>
<td>Preparing future leaders</td>
</tr>
<tr>
<td></td>
<td>Jemelyn Yadao talks to Institute members who have taken up the challenging task of teaching the next generation of CPAs</td>
</tr>
</tbody>
</table>

### SOURCE

<table>
<thead>
<tr>
<th>Page</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>44</td>
<td>Hong Kong law</td>
</tr>
<tr>
<td></td>
<td>Clarice Yen looks at the future of insurance industry reform</td>
</tr>
<tr>
<td>46</td>
<td>China accounting</td>
</tr>
<tr>
<td></td>
<td>How CEPA has benefited Hong Kong accountants 10 years on</td>
</tr>
<tr>
<td>48</td>
<td>Technical update</td>
</tr>
<tr>
<td></td>
<td>Establishing a comprehensive framework for revenue recognition</td>
</tr>
<tr>
<td>50</td>
<td>TechWatch 141</td>
</tr>
<tr>
<td></td>
<td>The latest standards and technical developments</td>
</tr>
<tr>
<td>53</td>
<td>People on the move</td>
</tr>
<tr>
<td></td>
<td>The latest professional appointments from around the region</td>
</tr>
<tr>
<td>55</td>
<td>Events</td>
</tr>
<tr>
<td></td>
<td>A guide to forthcoming courses, workshops and member activities</td>
</tr>
</tbody>
</table>

### LIFESTYLE

<table>
<thead>
<tr>
<th>Page</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>56</td>
<td>Business travel</td>
</tr>
<tr>
<td></td>
<td>Honnus Cheung takes a look at the rugged delights of Iceland</td>
</tr>
<tr>
<td>58</td>
<td>After hours</td>
</tr>
<tr>
<td></td>
<td>George W. Russell on wine; Wendy Hu on watches</td>
</tr>
<tr>
<td>60</td>
<td>Let’s get fiscal</td>
</tr>
<tr>
<td></td>
<td>Nury Vittachi files some expense claims</td>
</tr>
</tbody>
</table>
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Members honoured for outstanding contribution to Hong Kong

The government recognized seven deserving Institute members this year for their distinguished services to the profession and society.

Carlson Tong, the Securities and Futures Commission Chairman, received a SBS for “his dedicated and distinguished public service over the years,” particularly his contributions to the financial services sector as Chairman of the SFC and Chairman of the Audit Sub-Committee under the Hong Kong Monetary Authority.

Lesley Wong’s 39-year-long service to the government and the community lead to the former director of accounting services earning an SBS. Wong had “demonstrated remarkable professionalism in leading the Treasury to achieve its vision and mission by delivering a world class accounting and financial management service,” according to the official citation.

Hailed for his strong leadership skills, Quinn Law was recognized with an SBS for his significant contributions to the urban renewal work in Hong Kong. During his tenure as the managing director of the Urban Renewal Authority, Law had led his then senior management team in “accomplishing the various important tasks of the authority.”

Albert Au, Chairman of BDO Hong Kong and Institute president in 2008, was awarded the BBS for his contribution in enhancing the governance of the Hong Kong Productivity Council as a council member and Chair of the council’s Audit Committee. He was also acknowledged for his work towards corruption prevention and the overall accounting profession in Hong Kong. Josephine Leung, Deputy Director of Audit, also received a BBS for her more than 36 years of meritorious service to the government.

The Medal of Honour was awarded to Joanne Chong, Business Development Manager of Deloitte, for her exceptional community service in Central and Western District, particularly her contribution to the promotion of youth development.

Edith Ngan is Chief Executive of Hong Kong Securities and Investment Institute and also received a MH for her efforts in promoting environmental protection as well as the work of the Environment and Conservation Fund Committee.

Au King-chi, who is also a long-time working partner of the Institute, received a Gold Bauhinia Star. She has served in the government for more than 31 years, mainly focusing in the areas of planning and lands, economic development and financial services.
Disciplinary findings

Ernst & Young, Yen Kai-shun Catherine, CPA (practising) and Wu Ting-yuk Anthony, CPA

Complaint: Ernst & Young (EY) and Yen: failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute; Wu: guilty of professional misconduct.

On 24 December 2013, the Disciplinary Committee handed down its determination against EY, Yen and Wu in respect of their involvement in the auditing of the accounts of a group of companies. The Disciplinary Committee found the following:

EY was found guilty of failing or neglecting to observe, maintain or otherwise apply a professional standard, namely Statement 1.203 Professional Ethics – Integrity, Objectivity and Independence, as they had failed to be, and be seen to be, free of any interest, which might detract from their objectivity in accepting or continuing the professional work they undertook in connection with the audit of a company or companies in the group in respect of the financial years 31 December 1995 to 31 December 1997. The committee found that EY had failed to have any adequate review machinery, which would have alerted it to the risk of the appearance of its independence being impaired.

Yen was found guilty of failing or neglecting to observe, maintain or otherwise apply a professional standard, namely Statement 1.203, as she had failed to be, and be seen to be, free of any interest which might detract from her objectivity in accepting or continuing the professional work she undertook in connection with the audit of a company or companies in the group in respect of the financial years 31 December 1995 to 31 December 1997.

Wu was found guilty of professional misconduct, as a result of his failure to observe, maintain or otherwise apply the independence requirements of the Institute, namely Statements of Professional Ethics 1.200 Professional Ethics – Explanatory Foreword and Statement 1.203, by participating in the management of or otherwise having an involvement with the company and its subsidiaries while also a senior partner of EY who acted as auditors of the company in respect of the financial years ended 31 December 1995 to 31 December 1997, and while being a deemed auditor under section 131(9) of the then Companies Ordinance (Cap. 32).

Decision and reasons: On 22 July 2014, the Disciplinary Committee reprimanded EY and Yen and they were ordered to pay to the Institute penalties of HK$150,000 and HK$100,000 respectively. The committee also ordered removal of the name of Wu from the register of CPAs for a period of two years, and payment to the Institute of a penalty of HK$250,000. In addition, the respondents were ordered to pay HK$2 million towards the costs of the disciplinary and investigation proceedings. When making its decision, the committee took into consideration the particulars in support of the complaints, the nature of the breaches and the conduct of the parties throughout the proceedings.

Kung Ping-cheung, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply section 100.4(e) of the Code of Ethics for Professional Accountants as a result of being convicted for unlawful short selling of shares of a listed company.

In April 2012, Kung was fined by the Magistrate’s Court for unlawful short selling of shares of a listed company contrary to the Securities and Futures Ordinance (Cap. 571). Kung notified the Institute of the conviction in accordance with his membership obligations. After considering the information available, the Institute lodged a complaint against him under section 34(1)(a)(vi) of the Professional Accountants Ordinance.

Decision and reasons: Kung was reprimanded and ordered to pay a penalty of HK$30,000 to the Institute. In addition, he was ordered to pay the costs of the disciplinary proceedings of HK$25,834. When making its decision, the Disciplinary Committee considered that Kung had no previous disciplinary records and he voluntarily reported his conviction to the Institute, and that no dishonesty was involved in this case. However, the committee considered illegal short selling to be a serious case that would bring disrepute to the profession and Hong Kong as an international financial centre, and therefore ordered a penalty similar to that imposed on Kung by the court.

Yau Ka-yi, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply section 100.4(e) of the Code of Ethics for Professional Accountants as a result of being convicted for unlawful short selling of shares of a listed company.

In April 2012, Yau was fined by the Magistrate’s Court for unlawful short selling of shares of a listed company contrary to the Securities and Futures Ordinance (Cap. 571). Yau notified the Institute of the conviction in accordance with her membership obligations. After considering the information available, the Institute lodged a complaint against her under section 34(1)(a)(vi) of the Professional Accountants Ordinance.

Decision and reasons: Yau was reprimanded and ordered to pay a penalty of HK$3,000 to the Institute. In addition, she was ordered to pay the costs of the disciplinary proceedings of HK$23,708. When making its decision, the Disciplinary Committee considered that Yau had no previous disciplinary records and she voluntarily reported her conviction to the Institute, and that no dishonesty was involved in this case. However, the committee considered illegal short selling to be a serious case that would bring disrepute to the profession and Hong Kong as an international financial centre, and therefore ordered a penalty similar to that imposed on Yau by the court.

See details of the disciplinary findings: www.hkicpa.org.hk.
Big Four firm to pay US$4 million to settle SEC allegations over lobbying

EY unit accused by U.S. regulator of violating auditor independence rules

EY agreed last month to pay US$4.07 million to settle civil charges that a subsidiary of the Big Four accounting firm had lobbied Congress on behalf of two audit clients, violating auditor independence rules.

The firm sent letters to congressional staff on behalf of an audit client, urging passage of a bill crucial to the company. For another audit client, the firm's Washington Council unit sought to persuade members of Congress to withdraw their support for a bill, the Securities and Exchange Commission in the United States said in an administrative proceeding. The commission did not disclose the names of the two companies involved.

The firm had “engaged in lobbying activities that constituted improper advocacy and clearly violated the rules,” said Scott W. Friestad, Associate Director of Enforcement for the SEC, which noted that the firm was settling the case without admitting or denying the allegations.

EY said in a statement that it regretted the actions, adding that it voluntarily ceased lobbying for audit clients in 2012. “Auditor independence is of paramount importance to EY,” John La Place, an EY spokesman, said in the statement. “We regret these instances that arose many years ago and are pleased to put this matter behind us.”

Regulators ban former PwC partner for failures in audit process

The Public Company Accounting Oversight Board last month barred a former PricewaterhouseCoopers partner from auditing public companies over claims that he failed to properly audit medical-device maker ArthroCare in 2007.

The board found that Randall A. Stone “ignored or failed to properly evaluate numerous indicators that should have alerted him to the possibility that ArthroCare was improperly recognizing revenue,” according to the PCAOB. Those indications included unusual pricing and payment terms.

Stone, who retired from PwC in June, was subsequently banned from being associated with an audit firm for three years and fined US$50,000.

More accountants needed in 2014, U.S. study suggests

Job-hunting accountants in the United States were given cause for optimism last month after a recent study found that the number of accounting jobs available this year has increased compared with 2013.

According to the Brilliant Q3 2014 Hiring Forecast, a quarterly survey of human resources professionals and hiring managers, 65 percent of all respondents reported they currently have unfilled positions on their accounting, finance and IT staff, up from 58 percent posted three months ago, and 14 percent more than last year’s figure.

Jim Wong, Chief Executive Officer and Founder of management resources specialist Brilliant, says the high number of unfulfilled positions is the result of [many companies] “being more selective because they believe supply outweighs demand,” Wong told Accountingweb.

The survey was conducted by Brilliant and Richard Curtin, Professor and Director of Surveys at the University of Michigan.

Judge rejects PwC’s dismissal from lawsuit

A federal judge in the United States rejected PricewaterhouseCoopers' bid to dismiss a US$1 billion lawsuit brought by MF Global Holdings' bankruptcy plan administrator over advice the accounting firm gave the failed brokerage before its collapse in 2011.

District Judge Victor Marrero said PwC’s argument that it is protected by the so-called “in pari delicto” doctrine, which is Latin for “in equal fault,” was flawed. According to the doctrine, a court will not get involved to resolve a dispute between two wrongdoers.

The lawsuit, filed in March, accused PwC of professional malpractice for providing the financial services firm “flatly erroneous” advice on how to account for its investment in European sovereign debt.

The judge has yet to review PwC’s other arguments for dismissal, including that the administrator did not show that the accounting advice was a “proximate” cause of MF Global’s bankruptcy, Reuters reported.
India’s securities regulator last month ordered the founder and former executives of information technology group Satyam Computer Services to pay more than US$300 million in alleged gains in connection to a 2009 accounting scandal, which has been dubbed “India’s Enron.”

Satyam founder Ramalinga Raju, his brother Rama Raju, and former executives of the firm have been ordered to return 18.5 billion rupees (US$308 million) worth of unlawful gains with interest within 45 days, the Securities and Exchange Board of India said. SEBI added that they had created fake orders to make the business appear more profitable.

Satyam founder ordered to pay more than US$300 million

Ramalinga Raju “was responsible for “deliberately conveying a false picture of Satyam Computers’ finances to the investing public and concerned authorities,” SEBI said.

British manufacturer goes bust amid accounting errors

BCI Process, a British manufacturing company, was forced into administration last month after accounting errors were discovered following the departure of its internal accountant.

According to local media, administrators have set up a rescue deal for the West Yorkshire-based company.

In 2012, investment firm Hughes Armstrong Corporate Investment had to help BCI pay a debt to HM Revenue and Customs. However, in February 2014 HMRC said the company owed it a further £300,000. The company’s internal accountant said this was overstated but when the accountant left the company in March, major problems were reportedly discovered with the books.

A review by an external accounting firm found that BCI had made a loss of £233,000 in the nine months to 30 June 2013, contrary to the reported pre-tax profits of £155,000. It also discovered that £1.1 million could be payable to HMRC, a figure BCI could not pay.

FASB votes to finalize new consolidation standard

The Financial Accounting Standards Board voted last month to finalize a new accounting and financial reporting standard designed to make financial reporting about consolidation more transparent and consistent, according to Accounting Today.

All public and private companies that apply variable-interest entity guidance will be affected by the new standard, along with limited partnerships and similar legal organizations such as limited liability corporations.

The update is intended to reduce the complexity of the guidance for limited partnerships and similar legal organizations, simplify the consolidation guidance to focus more on principal risk, and remove the indefinite deferral available to certain investment funds, according to the website.

Governments told to ditch cash-based accounting

Governments must move on from the flawed model of public sector cash-based accounting and adopt accrual accounting to better measure and manage fiscal positions, the Chief Executive Officer of the International Federation of Accountants told Accounting Age last month.

Fayez Choudhury said that governments have failed to address deficiencies in public sector cash-based accounting that were exposed by the sovereign debt crisis.

According to Choudhury, cash accounting doesn’t provide a “comprehensive, comparable or transparent picture of governments’ true financial health,” Accounting Age reported.

In 2012, IFAC sent a letter to the G20’s finance min-
British government mulls tough laws on overseas acquisitions

The government in the United Kingdom plans to stiffen its laws governing foreign takeovers of British companies, a move that would raise potential challenges for international acquirers, media reported last month.

Business Secretary Vince Cable said that he intends to introduce new rules to ensure that there is “no wiggle room” for foreign companies to go back on commitments, such as maintaining jobs, made during the takeover process, during an interview with the BBC.

Cable also said that the government may introduce “tough financial penalties” for companies that renege on promises.

His comments come after the ultimately failed deal by United States-based drugs company Pfizer to buy British company AstraZeneca in May. Critics had said Pfizer’s assurances were vague and raised concerns over U.K. science jobs and research, leading to the government considering how to tighten the rules.

“There will be cases, and this was one, where there will be vital national interests, in this case large-scale [research and development], and the question is how you protect it,” Cable said.

Business Secretary’s comments follow Pfizer’s failed takeover bid

China steelmakers see profit margins surge

Steel producers in China saw their profit margins rise to the highest level in 18 months on cheaper raw material prices and stronger demand, according to a recent report by Barclays’ analysts.

The trend is expected to continue in the current quarter, the bank added.

“Given the low steel inventories at distributors and pollution-driven production controls in Hebei [province], the high margins could sustain themselves for some time,” Barclays said last month, according to the South China Morning Post.

According to the report, Hebei province accounts for about 30 percent of the Mainland’s steel output capacity and 45 percent of its spare capacity.

Margins of construction steel are at about 300 yuan a tonne, the highest in 18 months.

Macquarie Securities analyst Matty Zhao told the SCMP that flat steel, used mostly in vehicles, home appliances and machinery, earned margins of 300 to 400 yuan a tonne, the highest in two years.

Five largest U.K. banks to face full investigation over lack of competition

Britain’s new competition watchdog recommended a full inquiry into the banking sector last month after a study discovered that current account services and business lending “lack effective competition.”

The Competition and Markets Authority’s recent study found that the number of consumers switching between banks remained low. It also found that there had been little change in the market share of the United Kingdom’s biggest banks – Royal Bank of Scotland, Lloyds Banking Group, HSBC, Santander and Barclays – which provide 77 percent of current accounts and more than 80 percent of small business lending.

According to the CMA, which was formed in April, just 3 percent of current account customers switch every year and only 4 percent of small- and medium-sized enterprises change bank. The watchdog also said that many customers saw little difference between the largest banks in terms of the services they offer.

“A full market investigation by an independent expert CMA group is necessary to look at this market in detail and identify appropriate measures if competition concerns are found,” CMA Chief Executive Alex Chisholm told media.
Oil prices surge after Ukraine plane crash
The price of oil rose steeply on 18 July following news that a Malaysian Airlines plane crashed in eastern Ukraine, raising concerns over heightened geopolitical tension and its potential impact on oil supplies.

The crash of flight MH17 on route from Amsterdam to Kuala Lumpur came just a day after the United States issued sanctions aimed at Russia’s biggest firms including the world’s largest oil producer, Rosneft.

U.S. oil futures increased by US$1.99, or 2 percent, to close at US$103.19 a barrel on the New York Mercantile Exchange, the largest one-day dollar and percentage gain since 12 June, according to The Wall Street Journal.

Renewed violence in the Middle East, the world’s biggest oil-producing region, has also bolstered prices of global crude supplies.

China economy expands faster than expected: data
China’s economy grew at a faster-than-expected rate in the second quarter, a sign that Beijing’s mini-stimulus measures are starting to avert the country’s economic slowdown.

Gross domestic product grew 7.5 percent in the second quarter, rebounding from an 18-month low of 7.4 percent in the first quarter, the National Bureau of Statistics said last month. The figure exceeds analysts expectations of 7.4 percent growth.

Separate data released by Beijing indicated that industrial output rose 9.2 percent year-on-year in June.

The Chinese government recently unleashed a modest stimulus package that included tax cuts for small firms, reserve requirement cuts for some banks and infrastructure spending.

Turkey central bank cuts benchmark interest rate
Turkey’s central bank last month trimmed 50 basis points off its benchmark interest rate, resisting government pressure for more aggressive cuts ahead of a presidential election in August.

The bank cut its main one week repurchase rate to 8.25 percent from 8.7 percent, below the country’s inflation rate of 9.2 percent for the 12 months to June. In a statement, the bank called it a “measured cut” that was in line with the “recent improvement in global liquidity conditions.”

On 24 June, the bank had cut the benchmark interest rate by 0.75 percentage points.

Nihat Zeybekci, the country’s Economy Minister argued that 50 or 75 basis points cuts were inadequate as each interest rate percentage point cost the economy US$2.4 billion, the Financial Times reported.

Prime Minister Recep Tayyip Erdogan, who is preparing to stand in the presidential polls, had previously demanded sharper reductions to stimulate growth.

Hong Kong’s MTR wins Crossrail contract
The MTR Corporation was awarded the contract to run the cross-London Crossrail services worth £1.4 billion, Transport for London, which is responsible for the capital’s transit system, announced last month.

The Hong Kong-based MTR had beaten three other train companies short-listed to bid for the contract late last year, including Britain’s National Express and Arriva and French transport firm Keolis.

The MTR is expected to employ around 1,100 staff as part of Crossrail, which would reportedly cost around £15 billion to build and is due to open by the end of 2019.

Designed to reduce passenger overcrowding on underground trains in central London, the new line will see trains running from Reading, Berkshire, to the west of the capital and as far east as Shenfield in Essex, as well as linking to south London.
Facebook profit more than doubles to US$791 million in second quarter

Social media giant cashes in heavily on mobile device users

Facebook reported a 61 percent increase in revenue in the second quarter to US$2.91 billion, driven mainly by its fast-growing advertising business and a jump in advertisers and users.

The figure beats the average expectation of US$2.81 billion, according to analysts polled by Thomson Reuters.

Net income for the world’s biggest social network rose to US$791 million during the quarter, a 138 percent increase from the US$333 million made during the same period a year earlier.

Advertising revenue, which makes up most of the social media giant’s income, was up 67 percent from a year ago to US$2.68 billion, Facebook said last month. About 62 percent of that money comes from ads served up on mobile devices.

“We’re seeing our existing advertisers spend more and we’re seeing new people come on to the platform,” Chief Operating Officer Sheryl Sandberg told Reuters.

Facebook now has 1.32 billion active users every month, a 14 percent rise from last year, according to company data.

PayPal to offer cash advances to U.K. small businesses

Online payments company PayPal will start offering cash advances to small business in the United Kingdom as an alternative to traditional loans, the company announced last month.

The PayPal Working Capital Fund will be launched in the U.K. later in the year. It will approve advances based on sales history with PayPal, as well as provide businesses “funding in minutes.”

“We haven’t set the rates at the moment,” Rupert Keeley, Chief Executive of PayPal Europe, told BBC News. Fees will reportedly also depend on the size of the advance, and the repayment schedule.

PayPal’s funding mechanism has been providing loans to businesses in the United States since September. Since then, according to the company, it has provided US$140 million worth of advances to U.S. companies.

Earlier in the month, complaints were made against the company over unauthorized repayments taken from customer accounts. PayPal responded, saying that payments were taken in error, and would be credited back to customers.

Yahoo ups its mobile ad game by buying Flurry

Yahoo announced last month that it has acquired mobile app analytics provider Flurry, a move that will help one of the world’s biggest Internet companies boost its mobile advertising revenue.

The two companies did not disclose the financial terms of the deal.

However, the media reported that Yahoo paid more than US$200 million for Flurry, making it one of Chief Executive Marissa Mayer’s largest acquisitions since the company acquired blogging platform Tumblr in 2012.

Flurry works with 8,000 mobile publishers who use the service to sell banner ads within apps. These relationships will give Yahoo more opportunities to pitch to its advertisers. “What they bring to Yahoo is a great set of partnerships,” Scott Burke, Yahoo’s Senior Vice President, was quoted as saying by The Wall Street Journal.
Apple revealed strong quarterly earnings last month, after reporting a total of US$37.4 billion in revenue during the second quarter, a 6 percent year-on-year increase.

Apple also said that profit rose by 12 percent in the quarter to US$7.75 billion, which helped to make up for the drop in iPad demand. iPad sales were down for the second straight quarter by 9 percent to US$13.33 million.

Sales of the iPhone, however, jumped as the results found that the technology giant managed to sell 35.2 million iPhones during the quarter, up by 13 percent from the same period in 2013.

The upbeat results come amid much interest in the technology world over Apple’s upcoming iPhone model. In a statement, Apple Chief Executive Tim Cook said he was excited about new operating systems for iPhones and computers as well as “other new products and services.”

General Motors announced last month that it is recalling 717,950 vehicles in the United States due to varying reasons, including potentially loose bolts.

This year, the carmaker has recalled nearly 29 million vehicles, mostly due to faulty ignition switches.

While most of GM’s recalls this year have been for older models, many of the recalls announced last month were for current-model vehicles, including about 57,000 Chevrolet Impala sedans, a 2014 model, which were recalled for the loss of power steering.

The recalls also included 414,333 vehicles due to the bolt that secures the height adjuster in the front seat which may become loose or fall out.

Vehicles involved in the recalls announced on 23 June have been linked to two crashes and three injuries but no deaths, GM said.

U.K. budget airline’s profit forecasts disappoints

British budget airline carrier EasyJet expects to deliver lower-than-expected pre-tax profits of between £545 million and £570 million for the year to 30 September, as the airline industry faces the impact of political tensions in Israel, Egypt and Russia.

EasyJet’s full-year profit forecast fell slightly short of analysts’ expectations of £572 million, reported The Telegraph, leading to shares in the airline dropping sharply on 24 July.

Gerald Khoo, an analyst at Liberum, told the Financial Times that EasyJet’s first full-year profit before tax guidance “was a little disappointing.”

EasyJet also revealed that revenue per seat increased 1.7 percent to £62.47 in the three months to 30 June, helped by the timing of Easter this year. Total revenue was up 8.6 percent to £1.2 billion as it flew 17.9 million passengers during the third quarter, an increase of 9.4 percent.

YouTube looks to Hollywood to push for high-end content

Google has held discussions with Hollywood producers in a bid to fund premium content for YouTube, Reuters reported last month, citing unnamed sources.

The talks are part of YouTube’s continued efforts to bolster its position with advertisers, as it changes from being a platform for “grainy home videos” to a site for quality content.

According to the sources, YouTube is discussing the possibility of a highly produced series that is shorter than the standard 30-minute television programmes. “We are always exploring various content and marketing ideas to support and accelerate our creators,” a YouTube representative told Reuters, without commenting on the meetings.
With the United States and China negotiating over joint audit inspections, George W. Russell interviews James R. Doty, Chairman of the Public Company Accounting Oversight Board, in his Washington, D.C. office about government, governance and getting enough possums up a tree.

Photography by Meredith Rizzo
Sitting in his wood-panelled, Stars-and-Stripes-draped office, James R. Doty is well aware the organization he leads – the Public Company Accounting Oversight Board in the United States – is the result of domestic problems. “We, of course, are a product of the Enron, WorldCom and Adelphia collapses, among others,” says Doty, referring to three large U.S. accounting scandals of the early 2000s.

In an interview last month with A Plus in his eighth-floor office on K Street, amid the beating heart of U.S. government machinery, Doty notes that the PCAOB was formed in 2002 after a particularly unhealthy period for U.S. domestic capital, and as a result of the Public Company Accounting Reform and Investor Protection Act of 2002, later renamed the Sarbanes-Oxley Act. (See Many achievements, but “much work to be done” on page 19).

The conclusion is clear. “U.S. law requires that if you issue securities in U.S. markets, your auditor must be registered with and inspected by us,” he says. Speaking about ongoing negotiations with China over cross-border inspections, Doty likened the inspections in China of auditing working papers prepared by Chinese auditors to U.S. inspections of Chinese meat or steel products exported to the U.S., which are already taking place.

The PCAOB has already conducted inspections in 44 jurisdictions. Doty rejects any suggestions that the board is imposing its oversight model on the rest of the world. “I believe that we are doing exactly what we should be doing under U.S. law by way of building institutionalized and professionalized relationships with our foreign colleagues who share the mission of transparency, investor protection and audit quality,” he says.

He stresses that the PCAOB’s audit inspection agreements are mutual and reciprocal, noting that several foreign regulators had recently conducted inspections in the U.S. of U.S. audit firms. “The U.S. expects that there will be collaboration among audit regulators for independent cross-border inspections,” he says. “Keeping in mind that non-U.S. audit firms voluntarily register with the PCAOB and agree to be subject to inspection, we coordinate with the home country to conduct inspections of those firms.” he adds.

Auditors from many Asia-Pacific countries co-exist comfortably with the PCAOB, Doty points out. “We have worked with other authorities – Singapore, Taiwan, Indonesia, Malaysia, Thailand – all have firms registered with us,” he says. “We’re not at those firms every year. Most of those inspections are done triennially and performed by reviewing audit papers at the firms’ offices or at another convenient location.”

“I believe that we are doing exactly what we should be doing under U.S. law by way of building institutionalized and professionalized relationships with our foreign colleagues.”

Nearly four years into his term as Chairman, Doty says the PCAOB has made significant progress in reaching agreements with its foreign counterparts. “There is real communication between regulators,” he says. “We also meet with other standard setters, such as the International Auditing and Assurance Standards Board, and its Chairman, Arnold Schilder.”

Doty cites the IAASB’s exposure draft on auditor’s report as a critical project being considered by the IAASB. The PCAOB also is considering its own new standard on the auditor’s reporting model. “If it is approved in the U.S., it will be the first significant change to the auditor’s report in more than 75 years,” he says. “We will be moving along with a careful eye on what our IAASB colleagues are doing with their reporting model. I would say there is great harmonization between the two proposals.”

Indeed, he adds, the U.S. will try to learn from the experience of other standard setters if it believes a particular American rule should be updated. “We are considering and will have, I believe, a new standard that brings the U.S. up to the mark with other countries on a requirement to identify the engagement partner and the other firms that participate in an audit.”

Advances in auditing

A courtly Texan lawyer – he wears cowboy boots to the office in winter – Doty spent more than two decades with the well-connected law firm of Baker Botts, working with clients in capital markets. “For a lot of my career I represented the securities industry, including broker-dealers and issuers, and I understood self-regulation well,” he says.

In 1990, he was appointed general counsel to the U.S. Securities and Exchange Commission, advising on legal issues related to the oversight of the securities markets after the U.S. savings and loan crisis, during which more than 1,000 small financial institutions collapsed. “Self-regulation carried the securities industry only so far,” he points out.

As a result, Doty adds, U.S. independent regulation of auditing was inevitable. “For example, you can’t imagine the integrity of the country’s blood bank being left to self-regulation,” he says. “The movement away from self-regulation of auditing was not an experiment – it’s irreversible because self-regulation did not work here, and the audit is an integral part of investor protection.”
Doty says it is important for accountants to realize that auditing has moved – in terms of public consciousness – from the sidelines to the mainstream. “Twenty years ago, audit was an arcane area,” he says. “This has changed. Investors understand that a poorly performed audit can hurt them and they want to know more about audit quality.”

He stresses that the PCAOB has good working relationships with countries where the profession continues to self-regulate. “We deal regularly with regimes – Hong Kong, South Africa, for example – in which you still have substantial participation by the profession in the overarching governing body.”

Doty adds that auditors are best placed to influence the modernization of rules. “All auditing standards were at one time derived from the profession – none of them come ex nihilo – and it is better to have this kind of fine tuning of auditing and accounting standards come out of a body that is expertized. All of our proposed standards are made public for the profession and others to comment upon.”

In the U.S., accounting and auditing standard setting is delegated to the regulators. “The U.S. Congress does not want to be in the business of writing technical standards,” he says.

In the meantime, the PCAOB will continue to work to enhance investor confidence through its main weapon: the inspection reports that it issues. “Why have audit firms upped their game since 2003?” Doty asks rhetorically. “It’s because they know we’ll be around to inspect. We know that we have the firms’ attention.”

**Crucial reforms**

Despite his far-reaching vision for improving audit quality and reporting, Doty has no illusions about his own destiny. His term ends in October 2015 and
he says he has no idea if he will be reappointed. “You have to prepare for the future but you shouldn’t plan on what it’s going to be,” he notes.

Until then, Doty will continue to use his powers of persuasion, honed as a lawyer, to get the attention of stakeholders and garner broad support for crucial reforms. He admits that it is sometimes not easy to achieve a consensus. “As we say in Texas, you can’t get all the possums up one tree.”

The PCAOB began operations by adopting the profession’s self-imposed standards. Since then, it has worked to update and add to those standards where needed, he says. “You will see in our new related parties standard, for example, that we have replaced some old standards.”

The board now has the attention of audit committees, Doty says. “Audit committees want our board members to come and talk to them about what we’re doing,” he says. “That means audit committees are getting the message that the cheapest audit is not the best audit, and that they have a critical role to play in supporting the auditor and choosing the right team, scoping the audit properly, and executing it properly.”

**Win-win situation**

Doty mentions that he is just back from Beijing, where he met officials from the Ministry of Finance and the China Securities Regulatory Commission. Although no formal announcement has been made, it is believed that Beijing and Washington have agreed in principle on how to settle a long-running impasse over inspections of PCAOB-registered firms that are based in China. This also affects the work of PCAOB-registered firms based in Hong Kong that audit Chinese companies that trade on U.S. exchanges.

The standoff escalated this year when an SEC judge moved to temporarily suspend the Chinese units of the Big Four accounting firms from practising before the SEC. “We believe that we will soon be inspecting audits of Mainland companies whose securities trade in the U.S. and whose audits are conducted by PCAOB-registered firms in the Mainland and in Hong Kong,” Doty says.
He explains that the pending deal and a mutual audit inspection regime represent a win-win situation for both China and the U.S. “I believe that if investors know who performs the audit, who the engagement partner is, who the other participating firms are, where they come from and whether we inspect them, that will inject greater investor confidence in the audit.”

Doty rattles off a few statistics: The board has identified about 548 China-based companies trading on markets in the United States. Their global market capitalization exceeds US$1 trillion. More than 90 Chinese audit firms are registered with the board, including 44 in Hong Kong.

Investor confidence, Doty adds, is in part a product of transparency. “There is a verifiable premium for your securities if you are subject to a transparent, rigorous and enforced audit inspection and reporting regime,” he adds. “Confidence is not bred by opacity and secrecy. Secrecy does not breed trust.”

He believes cross-border cooperation with the U.S. will help Chinese companies prosper in a globalized marketplace and access international capital. “The trading markets of the West are going to be difficult for Chinese companies to access and thrive in without compliance with an international inspection regime such as ours.”

To be sure, the list of jurisdictions where the board cannot inspect PCAOB-registered audit firms is dwindling. Apart from China, there are some European holdouts, such as Belgium, the Czech Republic, Greece, Hungary, Ireland, Italy, Luxembourg, Poland and Portugal.

For audit firms in those countries, Doty says, a clean inspection report from the PCAOB should be desirable. “Those firms should be hoping that they can say that they have been inspected by us, because when issuers that they audit come to the U.S., there is a growing informed body of public opinion that wants to know if their audits have been inspected,” he says. “I believe we are implementing and fostering a collaborative international regime that is very healthy and consistent with better capital formation.”

Many achievements, but “much work to be done”

The Public Company Accounting Oversight Board was established in 2002 as part of the United States’ response to high-profile accounting scandals, including Enron, WorldCom and Adelphia.

Chairman James R. Doty says the PCAOB has achieved much in the years since, for which he credits its staff that has risen to nearly 800 people. “We believe that audit quality has improved, but there’s much work still to be done,” he says. The major areas, he says, are as follows:

**Standard setting**
The PCAOB is the U.S. standard setter for audits of public companies and other issuers. “We have issued landmark standards through the superhuman work of a relatively very few people in the Office of the Chief Auditor,” Doty notes, adding that a foundational suite of standards on risk assessment was issued in 2010 before he became Chairman.

“They went on to supplement that with communications with audit committees, we’ve got related parties out, we have work to do on fair value estimates, going concern, and we’ll do something on revenue recognition.”

One key project is reorganizing PCAOB’s audit standards. “The reorganization is designed to make them more usable by collecting and consolidating related areas of audit practice,” says Doty.

**Inspections**
One of the board’s most important responsibilities is its mandate to inspect the issuer audits conducted by audit firms that are registered with it. While most of the board’s inspections concern domestic auditors in the U.S., its cross-border inspections are one of its more controversial activities in certain international jurisdictions.

Doty says the board maintains a staff skilled in International Financial Reporting Standards. “We inspect IFRS-based audits and it is our job, as an inspector of audits, to stay up-to-date with and adept with this,” he says.

**Remediation**
Firms that fall short of the board’s expectations in their inspections are given 12 months to remediate the findings. After initially resisting the board’s findings, Doty says, many auditing firms now accept the findings and focus on remediation, rather than disputing the board’s findings.

“At first there was a detectable tendency among firms to hope we would go away,” he recalls. “That was succeeded by a detectable trend to simply put forward what they thought was the minimum to create a prima facie presumption that they had done something to remediate. All largely past. Firms are taking the findings seriously.”

**Enforcement**
The PCAOB is hamstrung by its inability to publicize its enforcement actions until they have been settled or litigated to a final conclusion. However, Doty continues to be astonished by cases. “We produced a case recently – the Randall Stone case,” he says (see Accounting news on page 6) in which an auditor did not perform the required work. “You cannot accept management’s representations as a substitute for performing the necessary audit work,” he says with a sigh. “You’ve really got to audit. It’s a strange thing to think that this must be said.”

In addition, he adds, “we have recently seen some fairly egregious cases of auditors going in and adding to the work papers retrospectively and not clearly identifying their additions or corrections or that changes have been made.”
QUEST FOR CONTINUITY
Many companies that depend on a family patriarch or controlling founder will face a crisis of leadership. George W. Russell explains how companies can pass the baton to fresh management without affecting shareholder value.
Succession planning experts look to the increasing problems as a sign of progress, especially among family-owned companies. “As the founding generation gets older, they get wealthier and their lifestyle improves,” says Peter Lee, Managing Director at asset management company Veco Invest Asia and an Institute member.

That is when they want to pass control to a designated family member, he adds. There are many outcomes that can cause disputes, such as other family members or non-family executives in the business objecting to the patriarch’s choice of successor. “[The patriarchs] can at times make decisions about succession planning that are not logical or value added, because they believe they have someone in the family whom they must or have to look after,” observes Patrick B. Trainor, Managing Director of Cornerstone Strategic Partners, a Hong Kong-based consultancy that offers succession planning advice.

In some cases, the ideal successor might have other plans, leading the patriarch to choose a less capable family member. “There is a phenomenon where the second generation have developed their own interests in terms of a career,” says Lee. “They may not necessarily be interested in the family business.”

Trainor notes that non-family companies are less constrained. “They look first to shareholder demands and the long-term viability of the business by looking for best fit or best experience or best person for the job,” he says. “Non-family companies look internally for the best person or externally if the resources are not already in the company.”

There is very little professional advice that can change the mind of a business owner who is insistent that control stays in the family, regardless of the competence of the successor. “When it comes to family companies if you talk about succession, it’s not about planning, it’s about a dynasty,” says Selwyn Mar, Senior Partner of Nexia Charles Mar Fan & Co. and Institute president in 1991.

Mar believes that, ideally, independent directors should recommend a successor—“They normally form the nomination committee, which is the one that should be doing something,” he says—but if the family’s shareholding is substantial, they get to dictate policy.

**The role of CPAs**

Early consultation with a professional business partner is recommended for both family and non-family companies struggling with unfamiliar aspects of family business. A CPA can ensure the perpetuity of their firm by converting it into a corporate entity or partnership. “Introduce a management hierarchy and organization,” he suggests, “and bring in a supporting manpower development plan to help placement over a preferred time scale.”

Biek says the Institute hopes to introduce further guidance through various initiatives.”
succession. Paul Parks, Senior Technical Manager at the American Institute of CPAs, noted that the global survey found that accountants were the second most trusted advisers to family-owned business, surpassed only by spouses.

Accountants, notes Lee at Veco, are well placed to help with succession planning in terms of expertise. “My CPA training in people skills means I can deal with clients and resolve issues. On the technical side, a CPA’s taxation expertise helps as well to structure or put together a family trust.”

Financial professionals working in succession planning need “to also be a bit of a psychologist,” according to Trainor. “It requires a balancing act on the part of the CPA to not show favouritism to one family member,” he says. “The CPA must also understand key drivers influencing the decision-makers.”

There is no one-size-fits-all answer, Lee adds. “I think the most important thing is to understand their needs – what they are trying to achieve – rather than impose a standard solution,” he says. “Most of them know there is problem but not how to tackle it.”

Lee says succession planning professionals can identify pitfalls, especially when it comes to differing rules among jurisdictions. “For example, if it’s a Taiwanese individual and they want to write a will, they are not aware that they will be taxed immediately,” he says.

Hong Kong families are fortunate to live in a jurisdiction where there is no estate or inheritance tax, notes Christiaan de Bruyn, another Institute member who works at Trident. “Therefore there is less of a compelling need to do estate planning than in many other countries.”

Hong Kong companies – no matter how traditional – have to be aware that the cor-
Corporation environment has modernized and they have to adjust. Yan suggests adopting asset holding structures, such as private trust companies, that can include a family charter. “This covers how decisions are made in the family regarding business, education, distributions, charitable work and support for family members who may have other talents or business ideas.”

**Promising developments**

Academics say succession planning in Hong Kong remains in its infancy, especially for family-owned companies, even though many families are served by professional staff. “Some have their own family offices,” notes Joseph Fan, Professor of Accounting at CUHK. “Knowledge and objectivity about succession planning are only just emerging,” says Fan, who is co-author, with Danish academic Morten Bennedsen, of *The Family Business Map: Assets and Roadblocks in Long Term Planning*, to be published by INSEAD Business Press in October.

Fan says that all companies can have succession issues but family businesses can be particularly complex. “Non-family companies do not have as many intangible assets,
such as relationships, values and ideologies, to protect and transfer.”

In Hong Kong, the Trust Law (Amendment) Ordinance 2013, effective since 1 December 2013, has given succession planning more clarity. Wynne Mok, a Partner at the Norton Rose Fulbright law firm, says the legislation will make Hong Kong more competitive and attractive to those setting up trusts.

“New provisions were introduced to ensure the certainty and validity of trusts,” Mok noted in a recent commentary. “Trustees are also given enhanced powers to facilitate effective administration of trusts.”

Change won’t occur overnight despite the amendments, however. “It will take time and education to encourage more people to use the new law,” says de Bruyn at Trident.

Experts say family-owned companies are more at risk of being left to drift if a succession plan is arrived at too late. “There is a cultural issue where it is considered bad luck to talk about death and estate planning,” de Bruyn adds.

Lee at Veco concurs, saying that his warnings about pitfalls can sometimes leave clients dismayed. “They never think about worst-case scenarios,” he says. “They never imagine disputes will happen. We can drive them into pessimism but it’s our job to look at all the angles.”

Trainor at Cornerstone is optimistic that succession planning will become more important in Hong Kong. “I think the [younger] generations have put aside some of the more constraining Confucian ideals and, based on the investment their older generations made in their education, have wisely moved ahead to confront succession problems using modern planning methods.”

The universality of family values

While there is some truth to the stereotypical Hong Kong business clan with its work-obsessed patriarch surrounded by children of varying levels of competence and sense of entitlement, succession planners warn that family businesses the world over are similar.

Patrick B. Trainor, Managing Director of Cornerstone Strategic Partners, a Hong Kong-based consultancy, says family companies sometimes operate restrictively.

“Older generations have made their succession planning based too narrowly on poorly trained or untrained family members,” he says. “I’ve personally seen this strait-jacketed thinking hinder at least two Australian family-run companies as well.”

Public companies in Australia generally have a very strong professional structure of planned management succession, says Bill Noye, Chairman of Family Business Services for KPMG in Brisbane and a fellow of the Institute of Chartered Accountants in Australia.

“However privately owned companies and family businesses, particularly smaller companies, tend to have significantly reduced levels and quality of planning for management and equity succession.”

Family members themselves are the complicating element, says Noye. “It can be quite challenging to ensure you have buy-in from all the family on what option to take. Ensuring you have family harmony pre- and post-succession is important and it generally does not happen on its own.”

For neighbouring New Zealand, with its high percentage of family-owned businesses – especially among farmers – succession planning is also a challenge. “Most leave it far too late and manage it in an unstructured and incomplete manner,” says James MacQueen, a Business Advisory Services Partner with BDO in Auckland and a member of the New Zealand Institute of Chartered Accountants.

Lyall Evans, a Partner at BDO in Gisborne, adds that honesty and good communications are key to providing good advice. “To me, succession is about wealth succession, as often it might be best for the family that the business be sold.”

In the United Kingdom, where economic recovery after the global financial crisis is barely nascent, companies are focusing on survival. “This has acted as a brake on serious succession-planning activity,” says Derek Allen, Managing Director of CMC Partners, a business consultancy in Oxford.

While more effort has been put into succession planning in the United States, it can often be reactive rather than proactive. “Immediate responses may be focused on identifying and developing replacements for senior executive leadership,” says Paul Parks, Senior Technical Manager at the American Institute of CPAs.

“However, succession planning strategies should be much broader and deeper, focused on attracting, developing and retaining talent throughout the organization,” he explains. “Successful organizations understand this and embed talent management operationally and strategically in their business.”

Succession planning in China has been affected by a younger generation who are less likely to want to take over active management of an “old-fashioned” manufacturing company, says Shaomin Li, Professor of Management and International Business at Old Dominion University’s Strone College of Business in Norfolk, Virginia.

Li notes that unlike in many other jurisdictions, there are inadvertent advantages to keeping the business within the family in China. “China’s governance environment is still undeveloped,” he says. “Businesses rely on private relations more than on the rule of law to protect their property and interests, so professionalizing management of family firms (i.e. hiring executives from outside) is riskier than it is in mature markets.”
China’s online-savvy middle class is prompting a new technology revolution, with companies rushing to create new applications and platforms that are fundamentally changing the Mainland economy. George W. Russell looks at the implications as well as emerging opportunities for financial professionals.
When the Vice-President of the United States, Joe Biden, suggested in May that Chinese industry was built primarily on copying other – mostly American – ideas, he was lambasted from both within and outside the Mainland for having outdated views.

“Name me one innovative project, one innovative change, one innovative product that has come out of China,” Biden challenged his audience in a speech to U.S. Air Force cadets.

The answers came rapidly out of the woodwork, ranging from smartphone maker Xiaomi, which issues an updated version of its homegrown operating system once a week, to biotechnology company BGI, which sequences more DNA – the chemical building block of life – than any other institution on earth.

Other innovation leaders include Tencent, an Internet giant that has packed far more features onto its messaging app, WeChat, than any of its international rivals, and network specialists Huawei, which has swept the globe with its high-tech, competitively priced servers and switching equipment.

Indeed, industry observers say Chinese tech companies are breaking through new boundaries, following in the footsteps of online commerce giant Alibaba, social networking behemoth Tencent and web services leader Baidu.

“Rapid advances in digital technology, such as mobility, cloud, social media and analytics, are fundamentally reshaping the corporate landscape,” says Lawrence Wong, Managing Director of Greater China Analytics at Accenture Management Consulting in Shanghai and a Hong Kong Institute of CPAs member.

Technology companies are also taking advantage of an increasingly sophisticated and accessible financial environment that encompasses private equity, venture capital, angel investors and start-up accelerators.

“There aren’t that many differences with the West when it comes to start-up financing,” says Colin Light, Partner and China Consulting Digital Leader at PricewaterhouseCoopers in Hong Kong.

While global crowd-funding leaders such as Kickstarter have so far shied away from the Mainland market, homegrown operations such as CTQuan and adventurous foreign entrants such as Australia’s Pozible are funding Chinese innovation: in May, Pozible raised more than 1 million yuan for Gyneno One, a sleep-pattern-monitoring wristband.

More Mainland entities can also be expected to seek financing abroad, such as through initial public offerings. “If Alibaba can successfully list in the U.S., more Chinese technology companies may follow in its footsteps,” says Eugene Liu, Partner and Head of Transaction Advisory Services at RSM Nelson Wheeler and an Institute member.

While Beijing, Shanghai and Shenzhen are the leading tech incubators in the Mainland, Hong Kong is also set to gain from China’s technology revolution thanks to its sophisticated capital markets and world-class financial, legal and other professional services. (See Hong Kong seeks bigger slice of high-tech pie on page 31.)

Consumer-led change
The evolution of the Chinese customer into one of the world’s most digitally connected is helping to drive innovation. Recent Accenture research showed that 86 percent of urban Chinese consumers are Internet users, while 75 percent own a smartphone. “Given the unique characteristics of Chinese consumers, it is not easy to copy business models in mature markets for success in China,” says Wong.

In addition, China’s large and growing
middle class has become accustomed to e-commerce. A 2013 survey by Bain & Company indicated that Chinese shoppers are more willing than those in other markets to use their smartphones to make purchases, are comfortable with third-party payments and online banking, and are happy to rely on third parties for deliveries instead of picking up goods in stores.

Last year, China surpassed the U.S. as the world’s largest digital retail market in terms of absolute value. Chinese e-commerce shoppers spent US$210 billion online in 2013 and, according to KPMG, e-commerce retail transactions in China should total US$540 billion, or 7.5 percent of the country’s total retail transactions, next year. China’s e-commerce market is forecast to be larger than those of the U.S., United Kingdom, Japan, Germany and France combined by 2020.

Chinese companies – which historically have not had a strong sense of customer service – are now competing to engage their clientele in innovative ways. For example, China Merchant Bank allows customers to ask live questions via WeChat, while apparel sellers Mogujie and Meilishuo give customers tailored suggestions also via the instant messaging app.

China’s digital transformation extends far beyond retail, as Wong points out. “Large companies in other industries proactively explore how digital capabilities can provide them with more consumer insights and help transform their structures inside to become digital disrupters themselves.”

As examples, Wong cites China’s three national oil companies that are implementing “digital oilfield technology,” in which remote access, data analysis and collaborative tools combine to improve oil and gas production and capture and transmit synchronized data from wells and plants.

While many of China’s Internet companies are underpinned by the same technology seen elsewhere, many have taken innovation a step further. “I think the true leadership China has shown is in innovation in the business model,” says Light at PwC.

Light says Alipay – once dismissed as a simple micropayment environment morphed into Internet financing pioneer Yu’ebao. “A lot of financial services institutions here and overseas are looking at those models,” he says.

Workers of the future

The buzzword is “disintermediation,” in which technology companies directly sell products and services to customers without the need for middlemen such as banks, brokerages or retailers, as China’s economy becomes more digital.

Gordon Orr, a Director in McKinsey’s Shanghai office, wonders about the future for millions of bank clerks and insurance sales agents displaced by apps. “Folks may find themselves partially disintermediated by technology, and rising numbers of graduates will have fewer jobs that meet their expectations,” he says.

Other experts are less fraught about the future for China’s workers. Light notes that Mainland banks never really established the kind of dense bricks-and-mortar networks that existed in other parts of the world. “It hasn’t really gone through that phase that the U.S. and Europe went through that was very much about branches and branch manager relationships.”
In addition, opportunities will emerge elsewhere. The world’s largest company – in terms of number of employees – is now a Chinese crowdsourcing company known as Zhubajie, which claims more than 9 million workers (although most are on part-time contracts). “Zhubajie covers everything from creative design and app development through translation and authoring to sales, marketing and sourcing,” notes Wong at Accenture.

The digital impact might be felt most in the bloated and inefficient state-owned sector. “In industry after industry, companies will feel the disruptive impact of technology, which will help them generate more from less and potentially spawn entirely new business models,” says Orr at McKinsey.

Large government-controlled enterprises, says Orr, will feel pressure to improve performance, use capital more efficiently and adapt to market forces.

However, it might be a painful process for companies used to state subsidies and inflated employment levels. “They are likely, at the same time, to face pressure to hire and retain staff they may not really need.”

The furthest corners of the state sector will feel the reverberations – even show business. “Accessing film and television content via the Internet across various devices has enabled viewers to consume entertainment products from anywhere and at anytime,” says David U. Lee, Founder of Leeding Media, an independent Chinese distributor and producer of *Inseparable*, the first Mainland-made film to cast a Hollywood star (Kevin Spacey) in the lead.

Lee says the state-run film and TV sector is likely to lose ground to private, niche programming produced by technology companies. “The traditional broadcast and cable television businesses may become obsolete,” he forecasts.

As white-collar employees increasingly replace manual workers, other opportunities will emerge. In February, professional networking site LinkedIn launched a Chinese-language website. About 4 million residents of China already use the English version and LinkedIn says the Chinese website is aimed at another 140 million “knowledge workers” residing in China.

**What the future holds**

The experts keeping tabs on China’s digital economy expect the next couple of years to focus on development of trends that have emerged. “I think we will see a fast acceleration of what we have already seen of effectively the whole of your financial environment moving on to mobile,” says Light at PwC.

He expects non-financial institutions to try to supersede banks. “I think we will see that come from not only the tech companies but also the insurance businesses,” he says. “They will all go after that broad spectrum of financial services and treat it as a single environment, some with a gaming environment or a social-oriented environment, but absolutely focused on how to move cash and credit
Technology companies of the near future will build digital supply chains, to use, share and repurpose data, just as their predecessors did with physical goods. “With this foundation, and supported by the right business processes, an integrated, end-to-end data supply chain is possible,” says Wong at Accenture.

Software will become more integrated with digital services. “The way we build software is changing,” Wong says. “As organizations push for greater operational agility, there is a sharp shift toward simpler, more modular apps.”

In terms of services, Light sees further development of mobile advertising. “At the moment, mobile is relatively under-penetrated and undervalued in terms of the amount of advertising spend that’s going on it and through it,” he says. “That will become increasingly sophisticated and increasingly targeted.”

The development of technology will also put China’s regulators under pressure. LinkedIn, for example, needed to obtain an Internet content provider licence, which requires that Internet companies actively remove or edit material deemed illegal by the Chinese government. “We do censor content in the Mainland,” says Deepa Sapatnekar, Asia Head of Communications at LinkedIn in Mumbai. “It is a fact of life.”

Hong Kong seeks bigger slice of high-tech pie

While Zhongguancun, a neighbourhood in Beijing’s Haidian District, is China’s closest equivalent to Silicon Valley, other parts of the capital as well as Shanghai and Shenzhen are among the leading technological centres in the Mainland.

However, Hong Kong could assume a greater role as Chinese start-ups seek global exposure and as multinational corporations look for closer access to Chinese information technology, a Hong Kong government agency forecasts.

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Hong Kong faces competition, however, from a range of incentives available to technology companies in the Mainland at the national, provincial, municipal and lower administrative levels.

“Each of the provinces in China has different approaches to research and development funding and tax initiatives to encourage you to establish yourself in their city or their province,” says Colin Light, Partner and China Consulting Digital Leader at PricewaterhouseCoopers in Hong Kong.

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Last year, Invest Hong Kong launched its own bid to attract high-tech talent with the StartmeupHK Venture Programme. It is designed to attract “innovative, scalable and high impact ventures” to set up a presence in Hong Kong, according to Galpin.

Hong Kong’s professional community, including the accounting sector, rallied behind the programme. “I think that the innovation that can be brought to Hong Kong through start-ups, especially in the technology area, is fantastic,” says Andrew Ross, Managing Director of Baker Tilly and a Hong Kong Institute of CPAs member.

“My expectation is to see more start-ups coming to Hong Kong, which bring, of course, a lot of business for professionals like myself as an accountant,” adds Ross, whose firm is a cosponsor of StartmeupHK.

Galpin believes Hong Kong remains an ideal access point for international start-ups looking to access China as well as Mainland tech companies looking to go global, citing easy accessibility and free flows of capital, information and talent. “Its strong rule of law is the cornerstone of business confidence,” he adds.

Galpin points to Hong Kong’s efficient bureaucracy as another attraction. “It requires only one hour to register a company online with HK$1 minimum capital and one director who does not need to reside in Hong Kong,” he says. “Our corporate tax is also one of the lowest in the world, at 16.5 percent.”

Pundits say China’s increasing emphasis on a digital economy is probably unstoppable, given consumer demand. While there is no shortage of cash, talent and innovation, regulation is the only obstacle. “I think we’ll see a lot of regulatory changes over the next couple of years,” says Light. “It’s already started.”

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Hong Kong seeks bigger slice of high-tech pie

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BUILDING UP CONFIDENCE
To followers of China’s real estate market, the recurring words in news headlines include “weak” and “sluggish.” As the industry grapples with tight credit, poor sales and excess supply, some developers are slashing prices to encourage buyers.

For George Liu, Chief Financial Officer, Asia Pacific, of real estate company Savills and a member of the Hong Kong Institute of CPAs, there is no need to panic over bad news. “The property market has ups and downs and we don’t really have to make a fuss about it.”

Liu, who joined the company in 2011, says the market uncertainties in Hong Kong and the Mainland do not imply a collapse is at hand. “It wouldn’t surprise me that there will be a correction in the next few years, but probably not in the next few months.”

Savills’ own research, released in May, shows luxury apartment prices in Hong Kong were down about 8 percent from their peak in the fourth quarter of 2012, and were forecast to fall an additional 5 to 10 percent in 2014.

The report also noted that this year would be tough for the luxury residential market in light of the tight policy concerning non-Hong Kong residents. “Taxes on overseas residents are probably a necessary evil,” says Liu, referring to the Hong Kong government’s recent efforts to cool soaring property prices. “[They are] necessary to correct imbalances, which have occurred previously, and evil because I believe in the free market.”

Liu’s tendency to look on the bright side has a lot to do with his personal observations of the property market both within and outside Asia Pacific, since he has been working for the London Stock Exchange-listed company.

“It’s interesting to see that even though transaction volume has decreased significantly in Hong Kong, Singapore and the Mainland, we have seen very good results in other major world cities, such as Tokyo, Sydney or London,” he says.
citing a headline-making project in May of which the company was the exclusive selling agent for a developer in Parramatta, Sydney. “We managed to sell all 124 luxury flats of its phase one development in four hours and it made prime news on national television in Australia.”

London, he adds, continues to be a sought-after property investment market among affluent Asians. “This year, we have seen a major property price increase from the year before in London and we have seen a lot more interest from Asia to invest in London.”

This, he notes, illustrates that despite the gloomy headlines in this region, investor appetite for overseas properties seems to remain strong. “People and institutions with money still want to invest, they still need to put their money somewhere and it’s no surprise that we have seen interesting investment activities in Asia-Pacific cities like Tokyo and Sydney,” he says.

“We also see a lot of so-called new money from the emerging countries in Asia like China, Malaysia and Indonesia, who are keen to see their money flow to a jurisdiction they perceive as more risk-free and safer, like London and New York.”

Liu spends much of his time helping numerous clients in the region grab those global investment opportunities. “Nowadays, capital has become quite mobile,” he says. “That means we shall continue to offer the best global services to all kinds of local clients within our region. As a CFO, I have to make sure that our general infrastructure at the service level can sustain such a change in the business.”

A head start
Unlike most Institute members, Liu had accumulated extensive experience, particularly in financial management and investment control, before pursuing his CPA qualification in 2008. He landed a job as an accountant at Industrial and Commercial Bank of China, one of the Mainland’s Big Four banks, after graduating from Shenzhen University. “Shortly after my accounting job, I was acting more like a banker, working in different functions, including treasury, trading settlement and lending,” he recalls.

After receiving his master’s of business administration degree from Cornell University in the United States, he worked for two conglomerates, Hutchison Whampoa and China Everbright, as well as Envac, a Swedish environmental technology company. “Before I got qualified, I was made a regional financial controller at [Envac] in 2005. I was covering all of Asia including the Middle East and started my QP process afterwards.”

Despite his previous experience, Liu’s CPA qualification in Hong Kong gave him a more formal and structured accounting education. “It familiarized me with local tax and legal knowledge, as well as help me meet others in the profession,” he notes.

It also provided him the skill sets needed for him to move on to the next stage of his career. The Swedish company had become involved in a state-owned enterprise in China, which led to Liu, who is originally from the Mainland, being appointed general manager of the joint venture.

“"I think people-related costs cover about 70 or 80 percent of our total costs, so for us [there] is never a cost issue alone.”

“In the year before I joined Savills, I had spent 90 percent of my time travelling around China, trying to manage the JV and get business,” says Liu, who was told about the CFO position at Savills by a headhunter in 2010. The timing, he remembers, was perfect. “I felt it was a good opportunity to work for a bigger brand and a large company. Since I joined, the chemistry has been there [and] the team is very supportive. I feel I’m adding value to this company so that makes me feel that joining was a very good decision.”

With more than 22,000 Asia-Pacific employees, cost issues at Savills, Liu points out, can be a highly sensitive area. “I think people-related costs cover about 70 or 80 percent of our total costs, so for us [there] is never a cost issue alone,” he says. “We don’t control the costs for the sake of cost control, we want people to be happy with the company and be able to deliver better business results.”

For Liu, the skills he acquired as a CPA have enabled him to think systematically when handling issues such as salaries and commissions. “We would place more valu-
able factors on cost control issues, for example we might reduce our fixed-cost base for the people who are able to bring in more revenue, then they will be entitled to have a bigger share of the value that they add to the company,” he explains.

**Portfolio diversity**

Liu believes that the company plays a key role in making cities around the region better places to live. “We operate on many different fronts, and they all have different impacts on amenity, environment and aesthetics,” he says. “Apart from transaction services, our extensive consultancy practice has a role to play.”

There is much more to the company than just luxurious high-rise apartments, he adds, making his time at the company exciting. In June, for example, the company was appointed the sole agent for several rare properties in Central, Wanchai and Fanling, including Commercial House, a 13-storey commercial building in Queen’s Road Central that was completed in 1957.

He notes that as well as its real-estate-related services, the company also covers all aspects of investment sales and leasing, particularly in retail. Hong Kong’s retail leasing market was subdued over the first three months of 2014, particularly in the prime street shop segment, according to Savills’ May research report. This, however, hasn’t affected Liu’s enthusiasm over one of the company’s profitable leasing clients. “We have been successful in other transaction services as well. For instance, probably all of the Apple stores in Asia Pacific were found and recommended by us over the past three years,” says Liu.

In Hong Kong alone, Savills has a property services team of more than 10,000 staff. It also has a sizable project management team across Asia Pacific. Most recently, the team has been busy helping a Japanese client build a casino in Manila, Liu says.

Last year, the company managed around 25 million square feet (2.3 million square metres) in prime commercial space and 12 million square feet (1.1 million square metres) in luxury residential properties in Hong Kong alone, while managing more than 1.6 billion square feet (148 million square metres) of property for clients in Asia Pacific. “In another interesting deal, we won a whole property portfolio from a government authority in Japan, defeating some well-known competitors,” he says.

Property management, Liu notes, appears to be more stable than the agency business. “That part of the company is able to provide the bread and butter to sustain and support the company in such a market full of uncertainties.”

While the high-end property market seems to have been losing momentum with the absence of external demand from investors and a series of government policy measures, Liu believes the market will rebound. “Over a longer run, I hold that if we believe in Greater China and if we believe that its economy will catch up, Hong Kong will have a brighter future.”
CPAs who teach

Experienced accountants can be among the most formative influences on younger professionals. Jemelyn Yadao talks to Institute members who have taken up the challenging task of inspiring the next generation of CPAs

Photography by Anthony Tung

When asked why they became an accountant, many Hong Kong Institute of CPAs members would answer that they were good at mathematics or have loved crunching numbers since childhood. Others would admit that their parents guided their career decision. For others, it was the simple fact that a major influence was an accountant who was a good teacher.

As Artie Ng notes, such a person is hard to forget. “A lot of my business professors were very inspiring,” says Ng, Principal Lecturer and Programme Director at the School of Professional Education and Executive Development of The Hong Kong Polytechnic University, and an Institute fellow, as he looks back on his student life in the United States with affection. “Some of them came from Harvard and other top institutions. They
would always talk about how to be a business leader and the real challenges of the business world. So, I became interested in being someone similar to that—an educator.”

With many CPAs constantly looking to take on new challenges, teaching accounting and other business-related subjects, either full-time or part-time, is a popular choice. Sharing industry knowledge with others or skills to use beyond the classroom can be one of the most rewarding things to do.

Aside from the top quality professors he met in the U.S., the lessons learned from stints at Coopers & Lybrand [now PricewaterhouseCoopers] and multinational companies are also unforgettable, says Ng, adding that these are “real-life cases” he had used to teach in a lecture hall with up to 100 students.

To ensure his students are well-equipped with a broad base of accounting and related knowledge, Ng pushes them to not be left behind in today’s ever-changing business world.

“I encourage my students to be proactive, to go out to meet people and to read business news, not only the local newspapers but international ones too.”

Being a lecturer doesn’t stop Ng from hitting the books himself. “A good teacher should also continue to upgrade himself with scholarly activities, such as researching and looking into relevant case studies that students can learn from,” says Ng.

While staying relevant is just one part that
CPAs who teach

contributes to his long working hours, being a PolyU SPEED lecturer is a privilege, he notes. “I feel I have the opportunity to continue to develop [as a person],” Ng says. “[Also] witnessing my students graduating and joining the workforce, becoming professionals – that’s a very rewarding process for me.”

Teaching a foreign language

Linda Ng, Director of Tseung & Ng (CPA), set up her own firm just as the financial crisis began in 2008 and a slew of global accounting standards were about to change. Ng needed to help her then clients deal with these challenges effectively and quick.

“The only thing that could get me there fast was teaching,” says Ng, an Institute member who, since 2010, has been a lecturer at HKCA Learning Media, which provides accounting training to university graduates and working adults taking the Institute’s Qualification Programme examinations.

“Because I teach, I study to make sure I have enough material to back up my lectures, and this helps solve the client’s questions at the same time. I started teaching, because it helped me build up my knowledge.”

Ng’s lectures are recorded and posted online for busy students to view whenever they can. She mainly talks to students about her favourite topic, financial reporting, preparing them to study module A (financial reporting) of the QP. This, she says, involves training her students to deal with a content-heavy syllabus. “The textbook for students who take the QP exam for module A is around 1,000 pages,

“After the lessons, they say, ‘I can’t forget what you taught us about financial reporting.’”
which is why they can find it difficult.

“Some of them tell me that for the first two lessons, which are three hours each, they have no idea what I’m talking about. To them, I’m speaking in a foreign language,” says Ng. However, Ng has managed to develop what she says is the best way to teach students how to talk in the CPA “foreign language” too. “I keep using the same wording and numbers (Hong Kong Financial Reporting Standards and other references) so that they can remember them easily,” says Ng, who keeps in touch with her former students.

“After the lessons, they say, ‘I can’t forget what you taught us about financial reporting,’ because I say the same standard numbers ten times, a hundred times, so much that even if you sleep you’ll remember it.”

For the love of teaching

At her first teaching occasion, Alisa Lee arrived an hour early and was surprised to find that some of her new students had also done the same. “Straight away, I spoke to them to understand their backgrounds, needs and expectations. I later gave them tailored advices such as study management tips in relation to their busy work schedules,” says Lee, an Institute member who also teaches module A to prospective CPAs.

As Lee demonstrates, those considering teaching will need determination, the ability to get on with everyone and a sense of humour. “In the first lesson, I illustrated the concept of financial statement quality with a story about match-maker introducing a boy to a girl using...”

“Part-time teaching requires no less passion and commitment than a full-time role.”

Alisa Lee
CPAs who teach

Lee was previously a learning and development manager at PwC in charge of various training sessions for new recruits. “New joiners are always enthusiastic to learn, especially technical skills.” Recently, she decided to switch from being a part-time lecturer at a professional training company to working full time at The Open University of Hong Kong. “I want to participate more in the education field,” says Lee, adding that part-time teaching “requires no less passion and commitment than a full-time role.”

Like other CPAs in academia, Lee believes that personal professional experiences are a critical part of what makes a model educator. “When I worked as auditor, I had many chances to present a complex accounting issue in a precise and understandable way to my clients, partners and colleagues,” recalls Lee. “This has sharpened my ability to teach complex topics in a structured way.”

Devising a lesson plan

Teaching a class about business assurance is simple, admits May Mak, Chief Financial Officer at RM Group, a health and beauty products provider, and an Institute member. “I get a set of materials and tell students what they should learn and what the content is, that’s easy,” says Mak, who is also a QP facilitator.

Her part-time job, however, is not as simple as just giving students the answers to every question. “To actually facilitate a class, we have to help develop their thinking process, and to develop their skills in order for them to
resolve problems independently and do the analysis,” she says.

Teaching nerves are hardly an issue for Mak, as she has enjoyed working with young people since even before becoming a QP facilitator. She previously worked for the learning department of a Big Four firm for many years.

Preparing for a workshop involves overcoming a multitude of challenges to encourage a high level of learning in future CPAs. “I would study the workshop materials provided by the Institute and communicate with the co-facilitators to discuss ways of delivering the programme.”

While Mak’s students are generally a lively bunch and enthusiastic when it comes to learning, those who lack professional experience often go to Mak with their frustrations. “Sometimes they may find it difficult to understand the concepts surrounding business assurance. So, as facilitators, we have to think of some real-life examples to share with the class,” she explains. “That’s why I do research before the workshop for these simple examples, to let them understand the basic concepts and ideas.”

Mak would encourage other CPAs to teach, not only because it helps them stay up to date with the latest regulatory requirements, but also because it creates meaningful connections with others. “Being in the commercial sector, I often recruit younger CPAs, so this lets me learn more about how potential CPAs think.”

**Filling the gap**

For James Wong, it was his curious wife, also an accountant, who inspired him to teach others. “She’s a very good accountant, very good at numbers and has been in the profession for around 19 years, yet she always calls me up to ask [accounting or business-related] questions,” says Wong, Chief Financial Officer of China Qinfa Group, a coal supply chain company based in Hong Kong. An Institute member, Wong has also been a regular continuing professional development speaker for the past 10 years.

Those questions from his wife prompted him to realize the needs of some accountants, who are similarly short of business and finance knowledge. “I wanted to become a bridge between the reality of a CFO’s world that involves dealing with bankers, and what [accountants] studied in the past,” says Wong.

Having six years experience in corporate banking and six years in investment banking, Wong conducts CPD classes that mainly cover what he says are the three factors that CFOs need to know: Corporate finance, banking and structure products, such as interest-rate derivatives. “My workshops became popular because they were practical and [members] saw that what they need are corporate finance skills and banking knowledge,” he says.

Teaching is a blessing, says Wong, as he remembers the instant joy he felt the first time he taught financial management at a university. “It was marvellous. The first time I went on stage, I couldn’t believe that this floor was mine.”

Wong believes he gains as much from his students as they acquire from him. “To teach is to learn. After teaching, I actually feel like I learned the most.”
Getting ready for new insurance legislation in Hong Kong

The Insurance Companies (Amendment) Bill 2014 opens a new chapter on regulatory reform in the city, says Clarice Yen

After almost four years of public and industry consultation, the Insurance Companies (Amendment) Bill 2014 was gazetted and presented to the Legislative Council for first reading in April, marking a key milestone in the Hong Kong insurance regulatory reform with the establishment of an Independent Insurance Authority.

The bill sets out the framework for the creation of the IIA to replace the Office of the Commissioner of Insurance as the insurance regulator, and a statutory licensing regime for insurance intermediaries to replace the existing self-regulatory system.

The bill amends and expands the existing Insurance Companies Ordinance (Cap. 41), while it leaves the following areas substantially unchanged: financial reporting, solvency and capital requirements as well as the authorization and supervision of insurers. It is generally expected that the bill will be enacted in 2015.

The bill is only the starting point as it paves the way for further regulatory developments and improvements in the Hong Kong insurance industry, such as the policyholder protection fund schemes and a risk based capital regime, the latter of which should promote better capital and risk management in insurers.

The key features of the bill and the implications to various stakeholders are set out below.

**Establishment of an IIA Independence**

The establishment of the IIA will create an insurance regulator that can discharge its supervisory responsibilities independently of the government. This will bring Hong Kong in line with international standards for insurance regulators as well as the current set up and structure of other financial services regulators like the Hong Kong Monetary Authority, Securities and Futures Commission and Mandatory Provident Fund Schemes Authority.

The IIA is operationally independent by having a governance structure similar to a body corporate in Hong Kong, with a chairman, a chief executive and six directors, with a minimum of two years of insurance industry knowledge and experience. The IIA is financially independent by replacing the government funding with revenues generated from increased licence and user fees and the introduction of a premium levy (which is at an increasing scale until it reaches the target level of funding six years after the IIA establishment).

Although it is proposed that the government will commit to a HK$500 million funding for the establishment of the IIA, the insurers and insurance intermediaries will have to bear the ongoing increased funding costs. Such costs may eventually be passed onto to the consumers through increased premiums or fee charges.

From the regulatory perspective, a regulator that is operationally independent from the government and financially independent with the freedom to expand workforce and attract staff at competitive rates should mean an increase in supervisory efficiency and effectiveness.

**Increased powers**

The bill will formalize the powers and authority of the IIA to carry out inspections, site visits and investigations into statutory law and allow for wider disciplinary actions to be taken against insurers and insurance intermediaries. An appeal mechanism will be set up through an Insurance Appeals Tribunal. Details of disciplinary sanctions will be disclosed to the public.

Fines for breaches have increased and the maximum pecuniary fine of HK$10 million for misconduct should act as an effective deterrent and lead to better protection for the policyholders.

The increased powers would give the IIA more clout in the insurance industry, raising its legal and financial impact, and will provide market participants with further confidence in the insurance sector.

**Supervision of insurance intermediaries**

**New licensing regime**

The current supervision of insurance intermediaries takes the form of a self-regulating system via three self-regulated organizations under which insurance brokers, with the exception of Lloyd’s, are required to join one of two self-regulating bodies, the Hong Kong Confederation of Insurance brokers or the Professional Insurance Brokers Association. Insurance agents are required to be registered with the Insurance Agents Registration Board, set up by the Hong Kong Federation of Insurers.

Under the new regime, all insurance intermediaries will have to be licensed by the IIA and be subject to its direct supervision, regulations and disciplinary procedures. A move away from self-regulation and into the single regulatory scope of the IIA will push intermediaries into following a consistent set of standards with increased motivation to ensure compliance.

There are more than 600 insurance brokers and more than 65,000 insurance agents registered in Hong Kong. The bill allows a three-year transition for pre-existing licensees of the self-regulated organizations, thus easing the burden on the need for immediate re-registration with the estab-
lishment of the IIA. It is expected that the IIA will need to invest in new systems and manpower to ensure proper administration of the new licensing regime.

However, the bill sets out a broader scope of regulated activities for insurance intermediaries subject to licensing than currently existed in the Insurance Companies Ordinance, as it also includes pre-sale inducement and post-sale administration activities. This would mean certain insurance service companies not currently subject to licensing or additional personnel within licensed entities could potentially be required to apply for a new licence.

Conduct requirements
Customer protection has been a key focus for financial services regulators globally after the global financial crisis. In Hong Kong, the Securities and Futures Commission and the Hong Kong Monetary Authority are leading the way in implementing measures to supervise the sales conduct of investment products offered to the public.

To be consistent with the two regulators, the bill thus sets out heightened standards for insurance intermediaries to follow in their dealings with policyholders. The bill prescribes a conduct framework based on honesty, treating customers fairly, integrity, competency, suitability, disclosures, conflicts of interest and acting in the best interests of policyholders.

To improve governance and oversight on insurance agencies and brokers, the bill requires appointing at least one responsible officer in charge of the internal control to ensure compliance with conduct requirements. At the same time, the bill also requires insurers to appoint a key person in charge of insurance intermediary control function.

For many insurance intermediaries, particularly the smaller brokers and agencies, demonstrating compliance with the conduct requirements will be costly. Coupled with the risk of big fines for non-compliance, which could be disproportional relative to the size of the business of small players, this may lead to consolidation in the market.

For agents acting on behalf of an insurer, the notion of acting in the best interests of the policyholder creates a natural conflict of interest and it will be interesting to see how this will work in practice and be enforced by the IIA.

Improvements in intermediary conduct should lead to an increase in potential policyholders’ confidence and, in time, could benefit insurers with increased quality of business. It remains to be seen whether continued intermediary and sales conduct reform could lead to the changes in product design and distribution strategies in the life insurance sector that have happened in other countries.

Implications for stakeholders
For market participants, the establishment of the IIA will see an increase in time and costs for insurers and insurance intermediaries associated with the new regulator funding mechanism and compliance requirements.

However, the increased confidence in the insurance industry resulting from a more powerful regulator and improved sales conduct will better align with international standards and benefit policyholders and, potentially, investors.

For finance and compliance professionals working at insurance companies and intermediaries, the new developments are unlikely to go unnoticed. Budget owners are likely to see the direct impact of cost increases from the new regulations and the increased compliance requirements could mean resource reallocation or hiring of individuals with relevant experience and disciplines.

The hiring process would also be under regulatory scrutiny as the IIA will also have to approve certain “key persons in control functions” of the insurer, such as intermediary management, risk management, compliance, actuarial matters and internal audit.

Clarice Yen is Partner, Financial Services, at KPMG China.
《内地与香港关于建立更紧密经贸关系的安排》(CEPA)十周年，硕果累累。财政部认真贯彻「一国两制」方针和党中央、国务院关于CEPA工作的决策部署，积极配合商务部扎实做好CEPA各轮磋商谈判工作，推动内地会计服务市场对香港特区形成了全方位、多层次、有深度、高质量的开放格局，为尽快基本实现内地与香港服务贸易自由化、促进香港长期保持繁荣稳定作出了积极贡献。

内地惠港会计政策措施概要

CEPA框架下内地惠港会计政策措施概要

CEPA磋商十年来，财政部在会计服务领域给予香港一系列优惠，惠港措施累计达20项，主要涉及以下七方面内容。

一是允许符合条件的香港专业人士担任内地会计师事务所合伙人。2012年CEPA补充协议九允许取得中国注册会计师资格的香港人士在深圳前海试点担任合伙人。2013年12月，该政策试点范围扩大到福建平潭综合实验区，2014年6月，进一步扩大到上海自贸区。

二是实现注册会计师考试部分科目免考。通过互免协议安排，符合条件的香港专业人土可豁免内地注册会计师考试中的「会计」、「审计」、「财务成本管理」和「公司战略与风险管理」四个考试科目。

三是注册会计师考试部分科目互认。通过互认协议安排，符合条件的香港专业人土可豁免内地注册会计师考试中的「会计」、「审计」、「财务成本管理」和「公司战略与风险管理」四个考试科目。

四是对外开放会计师事务所市场。允许香港会计师在内地依法设立的公司从事代理记账业务。

五是对外开放会计行业。允许香港会计师在内地依法设立的公司从事代理记账业务。

六是对外开放会计行业。允许香港会计师在内地依法设立的公司从事代理记账业务。

七是对外开放会计师事务所市场。允许香港会计师在内地依法设立的公司从事代理记账业务。

香港会计行业已成为内地经济发展的显著受益者

CEPA实施十年的成果显示，香港会计界人士已经成为内地社会经济发展的显著受益者。香港事务所承担了绝大部分内地在港上市公司的审计业务。香港事务所在内地承接了大量临时性的审计业务。为便利香港事务所接受境外客户委托到内地临时执行审计业务，财政部和省级财政部门依法审核批准了香港事务所大量临时执业申请。仅2009至2013年期间，财政部门就向香港事务所发放临时执业许可约110批次，惠及香港专业人士3,500多人次。据估计，还有部分美国、澳洲等国的事
務所申請的臨時執業業務，出於審計成本等方面的原因，實際上也委託香港事務所具體執行。對於香港事務所及專業人士來內地臨時執行審計業務，內地監管部門對其審批流程给予了最大程度的簡化，極大地便利了其執業行為。

上述情況充分證明，香港會計界從內地經濟發展中獲得巨大收益，香港會計行業對內地市場的依賴程度不斷加深。据反映，一批香港中小事務所約70%的業務收入直接或間接來源於內地企業。財政部會計司於今年6月對香港有關部門和方面進行了例行訪問，香港財經事務及庫務局、證監會、財務匯報局、香港會計師公會、港交所和會計界有識人士均對CEPA框架下內地對香港會計行業發展的有力支持给予了充分肯定，對財政部一貫的開放態度和務實的惠港措施表示感謝。

CEPA框架下內地惠港會計政策的未來展望
總的思路是，扎實貫徹「一國兩制」方針，繼續提供政策支持。認真貫徹落實黨中央、國務院關於大力發展服務貿易，切實做好CEPA工作，促進港澳保持長期繁榮穩定的決策部署，結合內地註冊會計師行業改革發展實際，在法律規範允許的範圍內，一如既往地為香港提供優惠和便利。抓緊研究修改《會計師事務所審批和監督暫行辦法》（財政部令第24號），研究兩地合夥人審計經驗互認，力爭納入新一輪CEPA開放措施，在廣東省先行先試，同時積極研究制定包括香港人士在內的境外人員擔任內地事務所合夥人管理制度，力爭將試點範圍進一步擴大到廣東全省，並在三年左右有序擴大到全國。同時，全面總結、認真分析、科學評估CEPA十年內地會計服務市場對港開放工作，按照合法、規範、公平、互利的原則，兼顧內地與香港會計行業的利益訴求和發展權益，積極主動、循序漸進地做好下一階段CEPA磋商工作，促進兩地會計行業在交流、交往、交融中共同提高專業水平，共同提升服務能力，共同開拓國際市場，共同為保持香港繁榮穩定，為實現中國夢作出更大貢獻。

CEPA
Issuance of a comprehensive standard for revenue recognition

The Institute has recently issued HKFRS 15 Revenue from Contracts with Customers, which establishes a single, comprehensive framework for revenue recognition.

Revenue is a vital metric for users of financial statements and is used to assess a company’s financial performance and prospects. However, significant diversity in revenue recognition practices has arisen because the extant version of revenue standards contains limited guidance on many important topics, such as accounting for arrangements with multiple elements.

Furthermore, the limited guidance that is provided is often difficult to apply to complex transactions, particularly because the extant version of revenue standards does not include any basis for conclusions. Consequently, some companies supplement the limited guidance in IFRS by selectively applying United States Generally Accepted Accounting Principles, which itself underwent a major transformation early last decade.

Broad revenue recognition concepts are supplemented by numerous industry and transaction specific requirements in U.S. GAAP, which often results in economically transaction specific requirements in U.S.

Issuance of a comprehensive standard for revenue recognition.

The extant version of revenue standards contains limited guidance on many important topics, such as accounting for arrangements with multiple elements.”

“Step 1: Identify the contract(s) with a customer – a contract is an agreement between two or more parties that creates enforceable rights and obligations. The requirements of HKFRS 15 apply to each contract that has been agreed with a customer and meets specified criteria. In some cases, HKFRS 15 requires an entity to combine contracts and account for them as one contract. HKFRS 15 also provides requirements for the accounting for contract modifications. Depending on the specific facts and circumstances, a modification may be accounted for as a separate contract or a modification of the original contract.

Step 2: Identify the performance obligations in the contract – a contract includes promises to transfer goods or services to a customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately. A good or service is distinct if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Step 3: Determine the transaction price – the transaction price is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price can be a fixed amount, but it may sometimes include variable consideration (because of discounts, rebates, refunds, etc.) or consideration in a form other than cash. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component, and for any consideration potentially payable to the customer. If the consideration is variable, an entity estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Step 4: Allocate the transaction price to the performance obligations in the contract – an entity typically allocates the transaction price to each performance obligation on the basis of the relative standalone selling prices of each distinct good or service promised in the contract. The best evidence of a standalone selling price is the price at which the good or service is sold separately by the entity. If that is not available, an entity is required to estimate the standalone selling
price by using an approach that maximizes the use of observable inputs. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements also specify when an entity should allocate the discount or variable consideration to one or more, but not all, performance obligations (or distinct goods or services) in the contract.

**Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation** – an entity recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer, which is when the customer obtains control of that good or service. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For performance obligations satisfied over time, an entity recognizes revenue over time by selecting an appropriate method for measuring the entity’s progress towards complete satisfaction of that performance obligation.

HKFRS 15 also includes requirements for accounting for some costs that are related to a contract with a customer. A company would recognize an asset for the incremental costs of obtaining a contract if those costs are expected to be recovered. For costs to fulfil a contract that are not within the scope of other standards, a company would recognize an asset for those costs if the following criteria are met:

- The costs relate directly to a contract (or a specific anticipated contract);
- The costs generate or enhance resources of the company that will be used in satisfying performance obligations in the future; and
- The costs are expected to be recovered.

With respect to disclosure, HKFRS 15 requires an entity to disclose the following quantitative and/or qualitative information so as to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers:

- Revenue recognized from contracts with customers, including the disaggregation of revenue into appropriate categories;
- Contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities;
- Performance obligations, including when the company typically satisfies its performance obligations and the amount of the transaction price that is allocated to the remaining performance obligations in a contract;
- Significant judgments, and changes in judgments, made in applying the requirements; and
- Assets recognized from the costs to obtain or fulfil a contract with a customer.

The following standards and interpretations will be superseded when HKFRS 15 comes into effect:

- HKAS 11 Construction Contracts;
- HKAS 18 Revenue;
- HK(IFRIC) - Int 13 Customer Loyalty Programmes;
- HK(IFRIC) - Int 15 Agreements for the Construction of Real Estate;
- HK(IFRIC) - Int 18 Transfers of Assets from Customers; and
- HK(SIC) - Int 31 Revenue-Barter Transactions Involving Advertising Services.

For many contracts, such as straightforward retail transactions, HKFRS 15 will have little, if any, effect on the amount and timing of revenue recognition. For other contracts, such as long-term service contracts and multiple-element arrangements, HKFRS 15 could result in some change to the amount and/or timing of the revenue recognized. Because of this, users of the standard are reminded to study the requirements carefully.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2017 with earlier application being permitted.
Members’ handbook

Handbook updates no. 149 and 150
(i) Update no. 149 contains consequential amendments to HKFRS, which were previously set out in the appendix to the standards as they were not yet effective. The Institute has taken this opportunity to incorporate the amendments applicable on 1 January 2013 in the relevant affected HKFRS for greater clarity.

(ii) Update no. 150 revises the relevant auditing and assurance pronouncements for the new Hong Kong Companies Ordinance.

Financial reporting

Invitation to comment on IASB’s exposure draft
The Institute has issued an invitation to comment on the International Accounting Standards Board’s exposure draft of Investment Entities: Applying the Consolidation Exception (Proposed Amendments to IFRS 10 and IAS 28), with comments requested by 18 August.

The proposed amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures are designed to clarify three issues about the application of the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them.
The proposed amendments include:
• Confirm that the exemption from presenting consolidated financial statements continues to apply to subsidiaries of an investment entity that are themselves parent entities;
• Clarify when an investment entity parent should consolidate a subsidiary that provides investment-related services instead of measuring that subsidiary at fair value; and
• Simplify the application of the equity method for an entity that is not itself an investment entity but that has an interest in an associate that is an investment entity.

Corporate governance

Best Corporate Governance Disclosure Awards 2014 invites entries
Now in its 15th year, the Best Corporate Governance Disclosure Awards is highly regarded as a benchmark of Hong Kong’s current corporate governance standards. A media briefing to launch the 2014 awards was held on 4 July.

The awards focus on voluntary disclosures of governance information in annual reports that reflects practices which clearly exceed the minimum legal and regulatory requirements.

There are five categories in the awards, namely Hang Seng Index, non-HSI (with separate categories for large companies and mid-to-small companies by market capitalization), H-share companies and other Mainland enterprises, and public sector or not-for-profit organizations. In addition, an award will be presented for excellence in sustainability and social responsibility reporting.

HKEx publishes consultation paper on internal controls section of its Corporate Governance Code
The Stock Exchange of Hong Kong published a consultation paper on proposed changes to the section of its Corporate Governance Code and Corporate Governance Report relating to internal controls.
HKEx is proposing that the internal controls section of the code should be expanded to cover the broader area of risk management. HKEx further considers that the code should better delineate the roles and responsibilities of an issuer’s board, management and internal audit function, in relation to its risk management and internal control systems, and set out the minimum specific disclosures that an issuer should make in its corporate governance report, so as to enhance the transparency of its systems. For the first time, it is proposed that all listed companies should have an internal audit function and, if they do not, they should review the position annually and disclose the reasons for not having such a function.

If you wish to submit views via the Institute, please send your comments to commentsletters@hkicpa.org.hk by 11 August.

Professional accountants in business

International Framework: Good Governance in the Public Sector
The document, jointly developed by International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy, helps improve and encourage effective public sector governance. The framework encourages better governed and managed public-sector organizations by improving decision making and the efficient use of resources. Enhanced stakeholder engagement, robust scrutiny, and oversight of those charged with primary responsibility for determining an entity’s strategic direction, operations, and accountability, leads to more effective interventions and better outcomes for the public at large.
Corporate finance

SFC consultations
The Securities and Futures Commission launched consultations on proposals to amend:
(i) The Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests)
The amendments provide two additional categories for exemption under the guidelines to cover participants of HKEx and clearing participants of a recognized clearing house that are themselves clearing houses. These changes provide a level playing field for market participants involved in Shanghai-Hong Kong Stock Connect whose roles are similar to those currently eligible for an exemption from disclosure obligations under Part XV of the Securities and Futures Ordinance.

(ii) The Code on Unit Trusts and Mutual Funds
The proposals give collective investment schemes greater flexibility in determining the means for making public their offer and redemption prices, net asset values and notices of dealing suspension. Under the proposals, more frequent dissemination of prices and net asset values were also be required.

Taxation

Announcements by the Inland Revenue Department and other tax matters
Members may wish to be aware of the following matters:
• Former senior manager convicted of evading tax.
• Taxpayer convicted of falsely claiming deductions for self-education expenses and approved charitable donations.
• The agreement for the tax information exchange between Hong Kong and the United States came into force on 20 June.
• The passage of the Inland Revenue (Amendment) Bill 2014, giving effect to two major concessionary revenue measures proposed in the 2014-15 Budget.
• Reminder of tax obligations of taxpayers and employers.
• Stamping Circular No. 4/2014 on stock borrowing relief.
• A notice regarding property owners’ obligations on property tax.

Legislation and other initiatives

Anti-money laundering
Members may wish to note the following notice in relation to combating money laundering and terrorist financing:
• U.S. executive order 13224: The list relating to “Blocking property and prohibiting transactions with persons who commit, threaten to commit or support terrorism.”

For more background information on the current law in Hong Kong relating to anti-money laundering, see the Institute’s Anti-money Laundering Bulletin 1 Requirements on anti-money laundering, anti-terrorist financing and related matters, and the supplement on suspicious transaction reporting.
People on the move
The latest professional appointments from around the region

**EY**

**Manhim Yu**
Partner, Fraud Investigation and Dispute Services, Assurance
Yu has more than 16 years of experience and knowledge in financial crime investigations, including banking fraud, corruption and anti-money laundering. He has worked with different global banks in regional AML compliance, anti-fraud and corporate security and investigations. Yu was previously a law enforcement officer with the Independent Commission Against Corruption.

**Philip Kwong**
Partner, Financial Services, Assurance
Kwong is a seasoned adviser to investment management companies, investment funds and security brokerages. His assurance and advisory experience spans private equity funds, hedge funds, mutual funds and qualified foreign institutional investors in the Mainland.

**Karina Wong**
Partner, Tax
Wong has extensive experience in providing services to a diverse range of clients from listed groups to privately-owned businesses in various industries including advertising, printing, publishing, retailing, high-end consumer products, automotive, biotechnology, pharmaceutical and healthcare.

**Bonny Fu**
Partner, Actuarial Services
Fu has more than 13 years of actuarial and insurance risk management experience. His portfolio of clients covers most of the major global market leaders’ Asia operations and local firms in the insurance sector.

**Jason Wong**
Partner, Assurance
Wong has more than 12 years of experience in providing assurance and advisory services to clients in Hong Kong, China and other Asia-Pacific jurisdictions, and serving clients in a wide range of industries, including telecommunications, media and entertainment and technology. He has also provided various assurance services on initial public offerings and corporate restructuring.

**Suneet Gorawara**
Executive Director, Financial Services Advisory
Gorawara has more than 17 years of experience in banking and financial services, and has assisted clients across the world in delivering value to their customers. His portfolio of clients includes regional and global banking leaders.

**Gary Yuen**
Executive Director, Advisory
Yuen has more than 15 years of experience in providing information technology auditing and advisory services to local organizations and multinational corporations in financial services, government and real estate. He specializes in financial audit IT integration, regulatory compliance review, IT internal audit, internal controls advisory, and third-party reporting services.

**ShineWing**

**Roy Lo**
Managing Partner
Lo has about 21 years of professional experience specializing in audit, merger and acquisition, initial public offering consultancy and risk management. He has been managing various assurance and listing projects relating to companies in Hong Kong and China as well as multinational firms.

**Arthur Pang**
Deputy Managing Partner
Pang has more than 20 years of experience in audit, finance and accounting, merger and acquisition and initial public offering. He has also provided services to corporations, entrepreneurs and state-owned groups with cross-border business presence in China and from a wide range of industries, from IT-related products to financial services.

**Amingo Tang**
Deputy Managing Partner
Tang has more than 14 years of experience in handling audit, merger and acquisition as well as initial public offering projects relating to companies in Hong Kong, United States and Singapore. She specializes in facilitating the proper application of professional standards, rules and regulations.

**Jack Jia**
Director, Fraud Investigation and Dispute Services, Assurance
Jia has extensive knowledge of forensic data solutions, including claims predictive analytics, insurance agent and bank trader behaviour analytics and life science compliance analytics.

Email your announcements to Jasmine Hu at jasmine.hu@mandl.asia
Events

Your guide to courses, workshops and member activities

Accounting and financial reporting

The impact of new requirements on listing applications will give an overview of the new listing requirements and discuss the Hong Kong stock exchange’s consideration of the listings.
CPD hours: 1.5
Language: English
Date: 26 August
Time: 6:30 – 8:00 p.m.

Corporate finance

Cross border series: China outbound investment environment and financial due diligence focus will cover the recent developments of China outbound investments, including trends, sectors and geographical locations. It will also look at the key success factors for such investments.
CPD hours: 2
Language: Cantonese
Date: 22 August
Time: 6:30 – 8:30 p.m.

Corporate governance

Arbitration in Hong Kong will explore the latest developments, the differences and similarities between arbitration and mediation and the advantages of using arbitration to resolve disputes. It will also offer practical help on structuring business agreements to enable arbitration and explain which disputes are not arbitrable.
CPD hours: 1.5
Language: English
Date: 20 August
Time: 6:30 – 8:00 p.m.

Succession planning: protect your business and personal assets will assist participants in understanding the key methods for succession planning. It will also cover the customary risk management strategies businesses and individuals should employ to protect their assets.
CPD hours: 2
Language: English
Date: 29 August
Time: 6:30 – 8:30 p.m.

Industry knowledge

New Companies Ordinance is a series of seminars that will focus on the impact of the new ordinance, which came into effect on March, on directors, company secretaries and accountants.
CPD hours: 2 (for each session)
Language: English/Cantonese
Date: 12, 19 and 26 August
Time: 6:30 – 8:30 p.m.

Risk management

IPO series: internal control requirements will assist CPAs in understanding the updated requirements and issues concerning internal control matters associated with initial public offerings in Hong Kong.
CPD hours: 2
Language: English
Date: 25 August
Time: 6:30 – 8:30 p.m.

How to put the new COSO framework into practice is the second of a two-part seminar designed to help participants learn more about the newly updated version of the Committee of Sponsoring Organizations of the Treadway Commission’s framework and how it applies to internal control systems.
CPD hours: 3
Language: English
Date: 28 August
Time: 6:30 – 9:30 p.m.

Taxation

FATCA – the latest update will look at the United States government’s Foreign Account Tax Compliance Act, its impact on financial institutions, and the related intergovernmental agreement to be signed between Hong Kong and the U.S.
CPD hours: 1.5
Language: English
Date: 21 August
Time: 6:30 – 8:00 p.m.

Visit the Institute’s website for other programmes and to enrol and pay online: www.hkicpa.org.hk
Iceland was at the forefront of the global financial crisis – the 2008 collapse of its heavily overleveraged banks was a harbinger of worse to come – but six years later, the country is on a cautious comeback.

Instead of global ambitions, Icelanders are thinking locally again, and part of the effort to revive its tiny economy is bolstering its already impressive tourism industry.

A land of fire and ice, this country of little more than 300,000 people abounds in vast glaciers, active volcanoes, extraordinary biodiversity and a proud, resilient populace.

With the signing last month of a free trade agreement between China and Iceland, it is expected that more tourists from this part of the world will visit the island republic.

Iceland was settled long after continental Europe. Norwegian and other Scandinavians moved here as late as the ninth century. It fell under the rule of various Nordic nations until the 16th century when Denmark took over until 1918, when it became a sovereign nation under the Danish crown. It became an independent republic in 1944.

More than a third of the population live in the capital, Reykjavík, a picture-postcard city by Faxaflói Bay in the southwestern part of the country that has been settled as long as Iceland. Once a hub for fishing, sealing and whaling, Reykjavík is now best known for advanced technology such as software, biomedical devices, pharmaceuticals and genetic technology.

Cultural attractions include the National Museum of Iceland, which is celebrating its sesquicentenary this year with an exhibition of silverware made in Iceland on display until 31 December. There are guided tours of the museum in English each Wednesday, Saturday and Sunday at 11 a.m. until 15 September.

A recent addition to the low-rise Reykjavík skyline is the Harpa – formally the Reykjavík Concert Hall and Conference Centre – opened in 2011 as a symbol of Iceland’s economic rebirth. August events include GalaBallet, a collaboration between Iceland’s Classical Ballet School, Icelandic actress Bórunn Lárusdóttir and Timo Sokura of the National Opera and Ballet of Finland.

A walkable city, Reykjavík’s urban area quickly gives way to charming rural areas, such as the biodiverse island of Viðey to the north, accessible by a short boat ride across Kollafjörður Bay. Viðey is perhaps best...
known for its Imagine Peace Tower, a memorial to the slain pop singer John Lennon built by his widow, Yoko Ono.

Just south of the capital is Hafnarfjörður, Iceland’s third-largest city and also its Viking heritage and music and arts capital. Annual events include the Bright Days festival in May and the Viking festival at the time of the summer solstice.

East of Reykjavík lies Þingvellir National Park, one of three national parks in the country. For visitors, this park is noticeable for its two submerged rifts, Silfra and Dávíðsgjá, which are popular diving and snorkeling sites.

The largest park is Vatnajökull National Park in the southeast, which features glaciers, springs and volcanoes covering nearly a seventh of the country’s land mass.

The third area, Snæfellsjökull National Park, is situated on a peninsula northwest of Reykjavík. It features the Snæfell glacier, Djúpalónssandur beach, Saxhóll volcano crater, two massive lava formations, the Sóngfellir “singing cave” and the Rauðfeldargjá waterfall.

In the far north is Akureyri, Iceland’s second-largest urban area. Known for its surprisingly mild climate, the city is a hub for tourism activities such as whale watching off the coast and bird watching in nearby Grímsey Island.

Northwest of the city is Æskogssandur, a small town that is home to the Kaldi craft brewery. Unlike other European countries, Iceland imposed prohibition of alcohol in 1908 though wines became exempt in 1921 and spirits in 1935. The ban on beer remained until 1 March 1989, which is now an unofficial holiday featuring pub crawls and beer festivals.

Alcohol, however, is expensive: expect to pay the equivalent of HK$400-HK$800 for a bottle of wine. Popular local spirits include brennivín, a type of aquavit made from potatoes.

Iceland’s isolation has given rise to unique culinary traditions. As an island nation, fish and seafood are staples while its cold climate is reflected in popular vegetables, such as turnips and rhubarb and accompaniments like crowberries and seaweed.

Horsemeat is popular and game meats include seal and reindeer. Traditional dishes are widely available, including skyr (skimmed milk curd), puffin (a seabird), minke whale (often as an exotic kebab) and hákarl (putrefied shark meat).

Where to eat

- **Dill** Nordic influences in modern setting. Sturlugata 5, 101 Reykjavík. 552-1522.
- **Einar Ben** Anglo-French cuisine with Icelandic twist. Veltugötu 3b, Reykjavík. 551-2344.
- **Fridrik V** Local specialties. Laugavegur 60, Reykjavík. 461-5775.
- **Tapas Barinn** Wide choice in central locale. Vesturgötu 3b, Reykjavík. 551-2344.

Where to stay

- **CenterHotel Menningarhúsinu Hofi Modern boutique comfort.** Menningarhúsinu Hofi, Akureyri. 450-1050.
- **National Museum of Iceland Premier collection.** Suðurgata 41, 600 Reykjavík. 530-2200.
- **Viking World** Tribute to ancient era. Vikingabraut 1, 260 Reykjanesbær. 422-2000.
As wine goes by
Chile’s Casablanca Valley is the epitome of coolness, writes George W. Russell

In the 1942 classic film Casablanca, Rick Blaine, played by Humphrey Bogart, tells a French officer he’s come to the Moroccan city for his health. “I came to Casablanca for the waters.” Captain Renault (Claude Rains) is shocked. “We’re in the desert,” he replies.

Perhaps Rick really had the Casablanca Valley in mind. This broad, well-watered valley on the western side of Chile’s coastal range, about 90 minutes’ drive west of Santiago, is influenced by cool Pacific Ocean breezes and moistened by frequent early morning fog.

The valley, along with the Aconcagua Valley and San Antonio Valley form the Aconcagua winegrowing region. Long dismissed as too hot and dry for grapes, Aconcagua’s valleys were first planted in the 1870s by Maximiano Errázuriz, a contrary public figure who found fortune as a mining magnate and fame as a politician and diplomat.

The Casablanca Valley turned out to be one of the country’s most fertile areas, where farmers grow potatoes and vegetables for domestic consumption, blueberries for export and increasing amounts of grapes, particularly cool-climate white wine varieties such as Chardonnay and Sauvignon Blanc as well as smaller quantities of Viognier, Riesling and Gewürztraminer.

Less well-known than the Maipo Valley or Central Valley, Casablanca Valley wines are slowly asserting themselves on the global stage. Today, the area already produces most of Chile’s white wines.

The modern era of winemaking began in 1982, when Pablo Morandé – struck by similarities between the Casablanca Valley and the Sonoma and Russian River valleys in California – planted about 20 hectares of white wine grape varieties already grown in the American regions.

Morandé was then working for Concha y Toro but, emboldened by his success, set up Viña Morandé in 1996. Starting from scratch, Morandé created a state-of-the-art vineyard in terms of architecture, advanced irrigation, organic management and systems for monitoring the growth, ripening and development of the grapes.

Another pioneer, Ignacio Recabarren, who succeeded Morandé at Concha y Toro, quickly saw the value of the Casablanca Valley, buying much of Morandé’s harvest. Today, leading Chilean labels such as Veramonte, Emiliana, Casas del Bosque, Viña Mar, Casa Lapostolle, Loma Larga and Indómita have about 4,000 hectares of the valley under vine.

Morandé’s wines aren’t easy to find in Hong Kong. One of the few examples is the Morandé Reserva Chardonnay 2009 (HK$130, Wine Village, Kwai Chung). It has an apple aroma that becomes almost creamy, while the palate is light citrus balanced with earthier undertones.

From Recabarren’s supervision comes the Concha y Toro Terrunyo Sauvignon Blanc Block 28 El Triangulo Vineyard 2011 (HK$130, Wine Village, Kwai Chung). It has an apple aroma that becomes almost creamy, while the palate is light citrus balanced with earthier undertones.

A modest introduction to the Casablanca Valley is the William Cole Vineyards Alamar Chardonnay 2011 (HK$60, Lam Hoi Kee, Yung Shue Wan). It’s a raw green Chardonnay with intense peachy and citrus aromas that continue into the palate, with lingering echoes of pineapple, passionfruit and pear. Drink now.

The Santa Helena 2011 Selección del Directorio Gran Reserva Chardonnay (HK$92, Brix, Sheung Wan) with its happy, simple aromas of pear and pineapple, is only slightly more challenging, yet it’s a clean young wine that is low on complexity. The acids are fresh and the oak is subtle.

For a more exotic experience, try the tropically fruited Loma Larga Agricola Llancay Chardonnay 2009 (HK$188, Bon Appetit, Causeway Bay). Papaya and melon combine with strong floral and spice aromas to create a well-rounded fruity palate and a long, smooth, sweet finish.

Red wines are less common in the Casablanca Valley, but some Carmenère, Merlot and Pinot Noir grapes are grown. The Montes Alpha Pinot Noir 2012 (HK$115, Watson’s Wine Cellar, Central) has an intense bouquet of cherries and strawberries. Slightly mineral and with hints of roses, this is a well-balanced red with a firm structure and a fine, almost elegant, finish.

The name of Maximiano Errázuriz lives on through his winery, Viña Errázuriz, today run by a fifth generation descendant, Eduardo Chadwick. The Errázuriz Wild Ferment Pinot Noir 2010 (HK$220, Red Wine Cellar, Wan Chai) is a fine legacy to the Chilean statesman: it is aromatic yet balanced by floral and spicy notes. It’s a nicely rounded wine, with concentrated fruit, soft tannins and low acidity.
Wrist that glister
Gold never gets old, but the rose variety is a hot trend, Wendy Hu writes

Gold is even bigger news than usual in this part of the world. With the global pricing regime under attack over suspected manipulation, moves are afoot to bring the gold market closer to Asia, where much of the precious metal is sold.

Last month saw two attempts to provide feasible gold price benchmarks in Asia: Singapore announced that it would launch a physical gold contract on an exchange to create a transparent form of pricing, while China said three physical gold contracts would soon be sold in Shanghai’s pilot free trade zone and gold derivatives would be introduced later.

The moves occur at a time when gold is increasingly popular as a fashion statement. The World Gold Council says lower prices were the most important factor behind the growth in demand in the first quarter of 2014.

“Gold is something that is not going to go out of fashion,” says Roberta Benteler, Managing Director of Avenue 32, the British luxury online retailer, adding that there has been a spike this year and that rose gold – also known as red gold or pink gold – has become a major trend colour this year.

Pure gold is mixed with about 25 percent copper to make rose gold, although sometimes up to 4 percent of silver is added. It gives off a subtle sheen that intensifies with age, due to tarnishing of the copper, and its delicate hue attracts a wide variety of consumers.

“Rose gold tends to complement many colours and skin tones, so it is very versatile,” says Jane Wong, Managing Director of Fiesta Collection, a jewellery company, and a member of the Hong Kong Institute of CPAs. “It looks romantic and it brings out the natural beauty of people wearing it.”

Recently, everyone seems to be getting into rose gold: Just last month, Montblanc launched the first rose gold nibbed Meisterstück fountain pen, while Lynx Golf introduced a special rose gold version of its Boom Boom Irons golf clubs.

Watchmakers aren’t being left behind. Breguet recently launched a rose gold version of its 3797BR model in Hong Kong. The hand-wound Calibre 558QP2 movement is equipped with a tourbillon and features off-centred hour and minute functions. The guilloché perpetual calendar has a retrograde date at 12 o’clock, day counter at 9 o’clock and a month and leap year counter at 3 o’clock.

A more robust looking timepiece is the IWC Aquatimer Perpetual Calendar Digital Date-Month, now available in red gold as a limited edition of 50 pieces. Actually, the rubber-coated titanium case has an 18-karat rose gold bezel – an unusual combination but, one that combines stylish luxury with sporty functionality. Adding to the watch’s sense of uniqueness is its size: at 49mm it is one of the largest watches IWC has produced. The date and month displays feature semi-transparent perforated covers that provide a view of the complex mechanism within and are evocative of a bathyscaphe.

A number of retro models look superb in rose gold, such as the Jaeger-LeCoultre Grande Reverso Ultra Thin 1931 with its antique-looking chocolate-toned dial.

This timepiece, the third in a series of tributes to the original, which became popular with polo players because of its reversible face, continues the Art Deco theme with a gadrooned dial, baton-shaped hour-markers and dagger-type hour and minute hands.

For another ultra-thin experience, there is the Ballon Bleu de Cartier watch, made with a maximum thickness of just 6.9mm.

The 40mm diameter timepiece features a Manufacture Calibre 430 MC mechanical movement with manual winding. The case is crafted in 18-karat rose gold, with a fluted crown set with a sapphire cabochon, silvered opaline dial featuring Roman numerals and sword-shaped hands in blued steel. The brown alligator skin band is clasped with an ardillon buckle in 18-karat rose gold.

For a truly retro experience, Longines has contrived to reproduce a 1927 pocket watch in modern rose gold. The 49.5mm Équitation Lépine features a solid caseback and back cover stamped with an image of a horse leaping over a jump. The heart is a Calibre L506.2 manually wound mechanical movement. The front is scratch-resistant sapphire glass coated with several layers of anti-reflective treatment. The lacquered white dial features 12 painted black Arabic numerals, transited by pink Breguet hands.
I hate it when the computer asks: “Do you want to save changes to this document?” and only gives you “Save” or “Don’t save” options. There should be a button saying: “I changed this document? What did I do? My boss wrote this. Am I going to get sacked?!?”

In truth, I hate handling formal documents full stop. I once complained to my boss that all my expenses were “bribery and corruption payments” but there was no place for that on the relevant form.

“What do you think the ‘entertainment expenses’ column is for?” he snarled. “To pay for your personal jester?”

This thought reminded me that on my first day of work as a reporter, I was summoned to a meeting of senior journalists to learn how to fill in expenses claim forms.

“I write down what I spent?” I suggested.

“Nooo,” my seniors groaned, almost fainting at my naiveté. They explained that the union had worked out the maximum plausible amount that a reporter might spend, and we all had to file identical claims every week for this exact amount.

“What about him?” I said, pointing to one reporter who had refused to join the meeting.

“They told me that Paul was “a sad case.” He had a religious adherence to the truth, so filed ridiculously tiny expenses claims.”

In China, the expenses bill is sometimes the main cost of doing business. So if you sell 1,000 widgets, the cost is US$10 for the widgets and US$10,000 for “entertainment” for the man who stamps the widget purchase permit.

An American friend told me about a nightclub performer in his country who applied to have her breast-augmentation surgery listed as a work-related expense. It was rejected on the grounds that her bust was size 56FF before the surgery, which should be big enough for anyone. (She found it difficult to get through doorways.)

However, her lawyer appealed against the decision, and a second judge, presented with the monstrous upper body dimensions of modern nightclub performers in the United States, decided that she did need her new, extra-large sized (56N) breasts as “a required condition of employment.”

No doubt she can also deduct the cost of widening the doors in her house as a work-related expense.

Inspired by her campaign, I will now use several office-supplied teabags, and put them all on my work-related expenses bill. It might shock the company accountant, but sometimes you have to stand up for what you believe in.

“He had a religious adherence to the truth, so filed ridiculously tiny expenses claims.”