SHINING LIGHT ON BIG DATA

Mastering data analytics is key to business success
Fulfilling our obligations to create a better society

Dear members,

As one of the most important constitutional developments since our reunification with China, the Hong Kong government last month released the Consultation Report and Proposals on the Method for Selecting the Chief Executive by Universal Suffrage in 2017. It has a critical bearing on the future of Hong Kong. Whether or not the proposals would be passed by the Legislative Council later this year, we, as the largest professional body in Hong Kong, should pay close attention to the developments.

Accountants are well placed to offer input to public policy issues, given our professional perspective. As a new initiative this year, we are organizing a series of seminars to extend our members’ reach as well as for them, if they want, to participate in the discussion of broader issues facing the society, such as large-scale infrastructure projects and others that have direct impact on the livelihood of the people of Hong Kong.

On audit regulatory reform, another public interest issue but closer to the profession, we have followed up with the Financial Services and the Treasury Bureau to exchange views of concerns. The issues that we addressed include the definition of public interest entity, identification of an individual who may be held responsible for failures in a firm’s quality control system, definition and exercise of oversight of the Institute’s registration, continuing professional development and standard-setting activities, lack of clarity on exercise of disciplinary powers including separation of operational functions, determination of sanctions and level of financial penalties, as well as funding of the independent oversight body.

Before the consultation conclusion is finalized, expected around middle of this year, we will continue to work with the FSTB, aiming to establish an audit regulatory system that suits Hong Kong, meets international benchmarks and protects the public interest.

As our ongoing commitment to uphold a regulatory regime that commands public trust and confidence, and support members’ work whether they are in public practice or in business, the Institute recently published several regular reports.

The first two reports relate to the Institute’s compliance function: the Compliance Process Review Report covers the findings and recommendations made by the Institute’s Regulatory Accountability Board after completion of its third process review of the operation of the Institute’s Compliance Department, while the Compliance Operations Report 2014 summarizes the work and responsibilities of the department in the past year.

Since compliance relates to all of you as a professional, I encourage you to look at these reports to learn more about how complaints, disciplinary proceedings and investigations against CPAs are dealt with under the Professional Accountants Ordinance.

The last report is the revised Anti-money Laundering Bulletin, which aims to help members address this pressing global issue. It sets out recommended good practices to assist members in fulfilling ethical and legal obligations in relation to anti-money laundering and counter-terrorist financing and to avoid inadvertent involvement in such activities.

Dennis Ho
President
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DRIVING BUSINESS SUCCESS

About our name: A PLUS stands for excellence, a reference to our top-notch accountant members who are success ingredients in business and in society. It is also the quality that we strive for in this magazine – going an extra mile to reach beyond grade A.

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See www.hkicpa.org.hk/aplus for details.
The Institute’s 2014 annual report recently claimed two international awards. The latest edition, entitled Growing with Hong Kong, took home a silver award in the non-profit organization category from the Astrid Awards and a gold award for annual report writing from the Mercury Awards. Both awards are given under the aegis of the Mercomm Awards programme, based in the United States. It is a prestigious international independent awards organization dedicated to the field of communications.

While the Astrid Awards focus on design communications, the Mercury Awards cover public relations, public affairs, and corporate communications. These highly competitive awards receive hundreds of entries every year from around the world and are judged by distinguished international panels of professionals in the field.

This year, the Astrid Awards, now in their 24th year, received nearly 550 entries from around the world while the Mercury Awards, now in its 26th year, received about 680 entries from more than 20 countries.

As the only winner from Hong Kong in the Astrid Awards non-profit organization category, the Institute stands out locally, regionally, and internationally for its communications endeavours.

“Given the quality of the entries from leading global agencies, companies, and organizations, being selected and actually awarded should be considered a real honour,” said Institute Chief Executive and Registrar Raphael Ding.

Meanwhile, Compliance Operations Report 2014 summarizes the performance of the Compliance Department in addressing complaints concerning ethical and professional conduct of its members, member practices and registered students.

Compliance with the Institute’s professional standards is a requirement of membership. Complaint and disciplinary processes are key mechanisms by which the Institute regulates the conduct of its members with sanctions being imposed for serious breaches.

More details about the roles and processes of the department are available at the Institute’s website.
Disciplinary finding

Ernst & Young, Kwok Chee Tack, CPA and Wong Yat Fai, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply Statement of Auditing Standards 400 Audit Evidence, SAS 230 Documentation and SAS 200 Audit Planning applying in 1998 and 1999 and the corresponding standards applying in 1997, and failure to carry out professional work with a proper regard for the technical and professional standards and thereby in breach of Professional Ethics Statement 1.200.

Ernst & Young audited the consolidated financial statements of a company and its subsidiaries for the years ended 31 January 1997, 1998 and 1999. Kwok was the audit engagement partner for the three years, and Wong was the engagement principal in 1997 and second partner in 1998 and 1999. The company was listed in Hong Kong until 2003. Following creditors’ petitions to the court, the company was placed in provisional liquidation in 2000 in Hong Kong and Bermuda, its place of incorporation. The Financial Reporting Council subsequently followed up the matter by starting an investigation into the audits.

In July 2011, the Institute received information from the FRC about non-compliance with professional standards in the audit work carried out by Ernst & Young on the title, recognition and presentation of two items of land included in the above-mentioned consolidated financial statements, and on a number of accounting journal entries recorded during the preparation of the financial statements. After considering the information available, the Institute lodged complaints against the respondents under section 34(1)(a)(vi) of the Professional Accountants Ordinance.

The respondents admitted the complaints.

Decision and reasons: The Disciplinary Committee reprimanded the first, second and third respondents and further ordered that Ernst & Young pay a penalty of HK$200,000, and that Kwok and Wong each pay a penalty of HK$100,000, to the Institute. In addition, the respondents were ordered to pay part of the costs of the disciplinary proceedings of the Institute and FRC investigation amounting to HK$1,351,071. When making its decision, the Disciplinary Committee took into account the fact that the case involved breaches of core auditing procedures in the audit of a listed company and the need to preserve Hong Kong’s position as an international financial centre. It also considered previous disciplinary records of Ernst & Young, the roles of Kwok as the engagement partner and of Wong who, while not being the engagement partner, was heavily involved in the audits. On the other hand, the committee noted that all three respondents admitted the complaints and co-operated with the FRC investigation, and there was no dishonesty or deliberate misconduct on their part.

Details of the disciplinary findings are available at the Institute’s website: www.hkicpa.org.hk.

Updated anti-money laundering guide published for members

The Institute has published a revised version of Anti-Money Laundering Bulletin 1, which sets out recommended good practices to assist members in fulfilling ethical and legal obligations in relation to anti-money laundering and counter-terrorist financing and to avoid inadvertent involvement in such activities.

The revised version replaces the original edition of July 2006. In line with international norms in this area, the latest version highlights the importance of conducting effective customer due diligence and record keeping, in addition to suspicious transaction reporting. Compared with the original version, the information in the bulletin has been re-organized. As a result, the revised version should be more readable and easy to use.
Seven firms appointed to help China audit offshore assets of state-owned enterprises

The Chinese government appointed seven audit firms to evaluate major state-owned enterprises this year.

The State-owned Assets Supervision and Administration Commission announced that the audits would cover the offshore assets held by various SOEs as well as major projects funded by them, Xinhua reported.

Zhao Jian, Professor of Management at Beijing Jiaotong University’s School of Economics and Management, told the South China Morning Post that the audits would help the authorities uncover any misconduct.

“There are concerns about whether these [offshore] investments are economically effective,” Zhao was quoted as saying. “A thorough auditing is needed to evaluate their effectiveness.”

In March, Dong Dasheng, a former deputy auditor general of the National Audit Office, told Xinhua as saying that 4 trillion yuan in offshore assets held by SOEs had never been audited.

KPMG auditors charged over Bulgarian bank collapse

Two auditors from KPMG’s Bulgarian affiliate face criminal prosecution over the collapse of a major financial institution.

The auditors failed to report shortcomings in the financial statements of Corporate Commercial Bank to Bulgaria’s central bank. The Bulgarian government was forced to bail out CCB after a 1 billion lev (around US$ 575 million) run on its deposits last year.

The Commission for Public Oversight of Statutory Auditors said it had found significant gaps and inconsistencies in KPMG’s audits of CCB, once the country’s fourth largest lender.

Prosecutors have also charged the head of internal audit with negligence.

Raju brothers, seven others jailed over India’s largest corporate fraud

The founder and former chairman of Satyam Computer Services and nine other defendants were last month sentenced to seven years imprisonment for India’s largest corporate fraud.

The court imposed a fine of 55 million rupees each on B. Ramalinga Raju and his brother Rama Raju, Satyam’s former managing director. Ramalinga Raju has already spent nearly three years in jail, The Hindu newspaper noted.

The scandal broke in January 2009 when Ramalinga Raju resigned and admitted to a 70 billion rupee accounting fraud involving relatives and senior employees at the company.

Singhalese court clarifies rules for access to papers

Singapore’s Court of Appeal has issued a landmark ruling giving liquidators access to audit documents as they investigate corporate collapses.

The city-state’s highest court ruled in favour of liquidator Yit Chee Wah in an appeal brought by Pricewaterhouse-Coopers in a bid to prevent access to documents related to Singapore-listed Chinese company Celestial Nutrifoods.

PwC argued it had cooperated with Yit by handing over three large files of limited company and subsidiary level information, year-end balances and minutes of meetings.

Yit said he required access to PwC’s working papers relating to Celestial’s trade dealings, affairs and property, bank statements, fixed asset registers and loan facility documents.

The court rejected PwC’s claim that handing over the documents would breach Chinese secrecy laws, pointing out that PwC had not shown that the documents contained state secrets.
Big Four firm EY last month agreed to pay US$10 million to settle a complaint in the United States over its role in events leading to the collapse of Lehman Brothers in 2008.

The New York State Office of the Attorney General had accused EY of approving Lehman’s accounting for certain short-term financing transactions that kept tens of billions of dollars off the bank’s balance sheet.

EY also failed to object to Lehman misleading analysts in connection with its leverage ratio and did not inform the bank’s audit committee about a whistleblower’s concerns.

By doing so, the attorney general’s office alleged, EY helped hide the leverage that led to Lehman’s collapse, which sparked a market panic that led to massive bank bailouts and the global financial crisis.

“If auditors issue opinions that are unreliable or provide cover for their clients by helping to hide material information, that harms the investing public, our economy and our country,” New York Attorney General Eric Schneiderman said in a statement.

Most of the fine will be distributed to Lehman investors, the Financial Times reported.

Moore Stephens to merge with Chantrey Vellacott DFK

The British accounting firm Moore Stephens last month reached an agreement to merge with Chantrey Vellacott DFK.

The move, completed on 1 May, will give the merged firm – to be known as Moore Stephens – a combined turnover of £156 million and more than 1,700 staff.

The new firm will be a member of Moore Stephens International. “The merger provides a platform for continued sustainable growth,” Moore Stephens Managing Partner Simon Gallagher told Economia.

Separately, Mazars last month announced a merger with German firm Roever Broenner Susat.
U.S. seeks extradition of London trader over 2010 “flash crash”

Briton allegedly made US$40 million from “spoofing” as indices plunged

A London day trader was last month arrested at the request of authorities in the United States in connection with the so-called “flash crash” of 2010.

Navinder Singh Sarao has been accused of using a commercially available automated trading system to manipulate the market for S&P 500 futures contracts on the Chicago Mercantile Exchange.

The U.S. Department of Justice alleged that Sarao used a technique called spoofing, in which he made large offers to buy or sell securities, then cancelled them before being processed, creating profits from the resultant market moves.

On 6 May 2010, the Dow Jones Industrial Average experienced its biggest intraday point decline – 998.5 points or 9 percent – within minutes. The S&P 500, the Nasdaq 100, and the Russell 2000 also experienced wild gyrations.

Sarao made about US$40 million between 2010 and 2014 from spoofing, U.S. authorities claim. He also faces charges of wire fraud, commodities fraud and commodities manipulation and will face a trial in Chicago if extradited.

China posts 7 percent GDP growth in Q1, official data suggest

China’s gross domestic product rose 7 percent in the first three months of 2015, the country’s slowest quarterly expansion since early 2009, according to government data released last month.

Chinese leaders have set the official GDP growth target for this year at about 7 percent, the slowest annual expansion in 25 years. However, the first-quarter data fuelled scepticism about the reliability of official statistics.

Recent indicators suggest that the economy could be slowing more rapidly than many observers expected. In a recent report, Citibank analysts said actual quarterly growth could be below 6 percent year-on-year, The Wall Street Journal reported.

The Journal noted that research companies were more bearish, with Capital Economics estimating growth at 4.9 percent and Conference Board’s China Center at just 4 percent.

Economists have pointed out discrepancies between headline GDP growth and other factors, such as industrial production. The New York Times reported last month that industrial production in March rose 5.6 percent year-on-year, its slowest increase since late 2008.

Nepal faces high economic cost after earthquake

The cost of reconstruction after Nepal’s devastating earthquake last month could exceed US$5 billion, representing more than a fifth of the South Asian nation’s gross domestic product in 2014.

“With the death toll and total casualty estimates from the Nepal earthquake rising rapidly, the economic impact on the nation is severe,” Rajiv Biswas, Asia-Pacific Chief Economist at IHS, a business information and analysis consultancy, noted in a 27 April briefing paper.

“The total long-term cost of reconstruction in Nepal using appropriate building standards for regions vulnerable to severe earthquakes could be more than US$5 billion,” he added.

The 25 April earthquake, claimed the lives of more than 4,000 people and severely damaged major buildings in the capital, Kathmandu, and crippled utilities and communication and transport infrastructure across the country.

Tourism, which accounts for about 8 percent of the economy and employs more than a million people, will struggle as thousands of foreign holidaymakers cancel bookings, USA Today noted.
European Union finance ministers last month ruled out a third bailout for Greece as the embattled country edges to a default on its international lenders.

Dutch Finance Minister Jeroen Dijsselbloem, who heads the EU’s group of finance ministers, told reporters on 27 April that there would be no repeat of the rescue packages granted in 2010 and 2012.

Greece has debts of €330 billion and faces redemption payments in July and August of about €6.8 billion of government bonds held by the European Central Bank. A default would be unprecedented for an EU member state.

Media reports suggested that Greece’s leftist government might be ready for compromise with its EU colleagues after a series of acrimonious meetings over the past three months.

The German magazine Bild reported that the Greek government is ready to scrap plans to raise the minimum wage, a sticking point for creditor countries demanding Greece impose revenue-raising measures such as higher value-added tax and a privatization programme.

Economists pessimistic over Thailand’s economic growth, survey shows

Thailand’s gross domestic product growth rate for this year will not exceed 3 percent, according to more than three-quarters of economists surveyed last month by Bangkok University.

According to the university’s faculty of economics, 76.2 percent of respondents thought full-year GDP growth would be 3 percent. The university researchers sought opinions from 63 economists from 25 leading Thai institutions.

The Finance Ministry has projected growth of 3.9 percent while the central Bank of Thailand last month revised its forecast to 3.8 percent from 4 percent previously.

Indonesian President seeks Philippine investors

Indonesian President Joko Widodo visited the Philippines last month with a view to attracting more Philippine businesses to invest in their neighbours, saying housing, agriculture, health and infrastructure projects were his top priorities.

“We want more Philippine investors to invest in Indonesia and for Indonesians to invest in the Philippines,” he told reporters in Manila.

Widodo said he hoped that “people-to-people connections” between the two ASEAN countries would grow through tourism.

Fitch downgrades Japan, joins Moody’s in fiscal policy warning

A second credit rating agency last month downgraded Japan by one notch after the government failed to offset a delay in a sales tax increase.

Fitch Ratings cut Japan to A, five notches below the top AAA rating. The move follows a downgrade late last year by Moody’s Investors Service to A1, one level above Fitch’s rating, due to a delay in the sales tax increase.

The new downgrade could put pressure on the government to adopt a fiscal discipline plan due to be announced next month.

Prime Minister Shinzo Abe’s decision late last year to delay a sales tax increase to 10 percent from 8 percent has made it difficult to eliminate the primary budget deficit in fiscal 2020.
H is for Hong Kong: HKMA lays down welcome mat for HSBC’s return home

Bank warns rising cost of levy could force headquarters move

The Hong Kong Monetary Authority announced last month that it would welcome back HSBC should the beleaguered banking giant relocate its headquarters from London.

On 24 April, HSBC floated the idea of a shift to Hong Kong after noting that its bank levy, imposed by the British government, would rise from US$1.1 billion this year to US$1.8 billion should the current Conservative-Liberal Democrat coalition government be returned to power on 7 May.

The same day, the HKMA, Hong Kong’s de facto central bank, issued a statement saying it “takes a positive attitude” towards the shift. “HSBC is the largest bank in Hong Kong and has deep historical links with Hong Kong,” the statement said.

A move back to Hong Kong would be a return to its roots for HSBC, as the bank was established 150 years ago in the then British colony. With its subsidiary Hang Seng Bank, the group accounts for about a third of all deposits and loans in Hong Kong.

HSBC’s image has been tarnished in recent years due to scandals involving money laundering, tax evasion, hidden assets, foreign exchange manipulation, improperly sold insurance and breaches of international financial sanctions against Cuba, Iran, Libya, Myanmar and Sudan.

Tesco’s full-year results plummet to a historic low

British retailer Tesco last month reported the worst results in its 96-year history, posting a pre-tax loss of £6.38 billion for the year to 28 February, compared with a pre-tax profit of £2.26 billion for the previous year.

Most of the losses—about £4.7 billion—were related to the property value of its stores in the United Kingdom, a result of fewer customers in many of its larger “superstores.”

Chief Executive Officer Dave Lewis described the results as “difficult” and vowed to rebuild the brand. Tesco would look to reconnect with consumers, he told Marketing magazine last month. “Our priority is and always will be investing in the customer,” he said.

The Economist described Tesco’s results as “eye-popping,” and noted that it was the largest pre-tax loss in British retail history, eight times as much as the previous record set by Morrisons in 2014, and the sixth-largest loss ever for a U.K. company.

PepsiCo changes recipes amid profits warnings

PepsiCo is reformulating one of its core beverage products amid warnings of lower profits due to weakening currencies in key markets.

The company said the slumping Russian rouble and Brazilian real, among other currencies, could reduce profits by up to 11 percentage points in 2015. Chief Executive Officer Indra Nooyi said PepsiCo should return at least US$8.5 billion to shareholders and deliver mid-single-digit revenue growth in 2015.

The warnings come as the company announced it would change the recipe for Diet Pepsi from August, when it will be sweetened with sucralose and acesulfame potassium instead of aspartame, due to customer health concerns.

Aspartame is popularly associated with certain cancers, although no medical evidence exists. “To Diet Pepsi consumers, removing aspartame is their No. 1 concern,” Seth Kaufman, Senior Vice President of Pepsi and Flavors, told USA Today last month.

However, Michael Jacobson, Director of Center for Science in the Public Interest, a consumer advocates’ group, told USA Today that acesulfame potassium, nicknamed ace-K, was an unknown substitute. “It is poorly tested,” he said.
Diageo in standoff with grounded Indian tycoon

Global beverage giant Diageo is locked in a stand-off with Vijay Mallya, the former controlling shareholder of United Spirits, the Indian group that Diageo purchased in July 2014, over allegations of financial impropriety.

United Spirits, now 55 percent owned by the British group, asked Mallya to step down as Chairman. Anand Kripalu, United Spirits Managing Director, wrote to the Bombay Stock Exchange saying the board had “lost confidence” in Mallya.

Diageo has said an internal inquiry found evidence of irregular transactions between United Spirits and other parts of Mallya’s collapsed Kingfisher empire between 2010 and 2012. “The manner in which certain transactions were conducted, prima facie, indicates various improprieties and legal violations,” Kripalu told the BSE.

At the time, Mallya was attempting to save Kingfisher Airlines, which ceased operations in 2013 with more than US$1.5 billion in debts, the Financial Times noted last month.

Mallya, who has vowed to fight to remain a director, denied any wrongdoing in a statement, adding that the transactions were in “full compliance of law at the relevant time.”

Volkswagen chairman quits after losing feud with CEO

Ferdinand Piëch, the once-powerful grandson of Volkswagen’s legendary founder, resigned abruptly last month as chairman of the supervisory board after a public feud with the company’s Chief Executive Officer.

In a one-paragraph statement, Volkswagen announced on 24 April that Piëch and his wife Ursula, also a board member, had resigned “with immediate effect.”

CEO Martin Winterkorn and Piëch had been embroiled in a public dispute over the company’s future. Piëch had demanded that Winterkorn take action over VW’s declining profitability and chronic underperformance in the United States.

Piëch, son of Ferdinand Porsche’s daughter Louise, was VW’s CEO from 1993 until 2000. The Piëch and Porsche families own 51 percent of voting stock, which could mean that infighting continues after the Piëchs’ departure from the supervisory board.

Comcast abandons much-criticized takeover of Time Warner Cable

Comcast, the largest cable television network in the United States, last month abandoned its US$45 billion bid to take over rival Time Warner Cable.

The deal, first announced in February 2014, would have merged the country’s two largest cable operators, fuelling fears of reduced consumer choices and higher prices.

The combined company would have controlled 57 percent of the U.S. broadband market and 30 percent of pay TV. “My fear has been more concentration of power, and that is why I have been against this,” U.S. Senator Al Franken, a vocal opponent, told The New York Times. “We need more competition in this space, not less.”

The companies have a reputation for having a tin ear when it comes to customer service, critics complained. Both Comcast and Time Warner Cable consistently rank at the bottom of consumer satisfaction surveys, the Times noted.

Cirque du Soleil to sell majority stake to private equity investors

The owner of the Canadian live-entertainment group Cirque du Soleil is selling a majority stake to an investment consortium that includes Shanghai-based Fosun Capital Group.

TPG Capital, the private equity firm based in the United States, led the deal, which values the famous troupe at about C$1.5 billion. Fosan and the Quebec provincial pension fund manager, Caisse de Dépôt et Placement, will hold minority stakes.

Cirque du Soleil has struggled financially in recent years and founder Guy Laliberté said the new investors would focus on growing the company. “This is not a fire sale,” he told Canada’s CBC News.

Investors are plotting a major Asia-Pacific expansion for the circus, The Globe and Mail reported. By joining forces with Fosun, China will become a priority market, the Toronto paper added.
The interpretation of “Big Data” has become a priority for most companies. Jemelyn Yadao finds out how accounting firms are using increasingly more sophisticated analysis to help executives make better-informed predictions and decisions to create value.

Illustrations by Magdalene Wong

Starting at the gadget coiled around his wrist, Lawrence Wong looks past the lifestyle features of his so-called “Internet of Things” device – it counts the calories burned and monitors his sleep – and sees the bigger picture.

“The volume of data available today is becoming bigger thanks to this,” says Wong, Managing Partner at GCE Consulting, which provides advisory and training services on Big Data, as he elevates his wrist. Wong is also a fellow of the Hong Kong Institute of CPAs.

“With all these connected devices, and data coming from various angles, how can we capture it all to generate meaningful insight? This is what companies will be thinking about,” he adds.

Indeed, according to global market intelligence company IDC, the number of connectable devices will increase from 187 billion in 2013 to 212 billion in 2020. Wong’s focus on how to use technology and data for business purposes mirrors that of accounting firms.

This is, in part, due to corporate senior executives becoming increasingly receptive to using big data to grow their business. About 85 percent of chief executive officers in the Mainland said their decisions were highly or somewhat data-driven, as opposed to those based on experience, according to a PricewaterhouseCoopers survey last year.

Accounting firms, particularly the Big Four, are making data analytics one of their strategic objectives and a priority for investment. As Wong puts it, data analytics enables organizations to analyse a mix of structured and unstructured data as they seek to gain valuable information that will help their business grow.

By building up their data analytics divisions, firms are increasingly able to translate data-driven insights into action for their clients, while strengthening their role as thought leaders. KPMG, for example,
is scheduled to open its Insights Centre in Hong Kong, the first in Asia, next month. (Similar facilities will open in London, New York and Frankfurt.)

The centre, which will take up the whole eighth floor of Prince’s Building in Central, will allow KPMG staff and clients to collaborate face-to-face to derive meaning from data. “It’s a state-of-the-art facility to show people the art of the possible,” explains Egidio Zarrella, Head of Data and Analytics at KPMG China, adding that the labs will not only be used by the firms’ advisory group, but also its audit and tax functions. “We will take the client’s data and put it through tools that will show them what their data is actually telling them.”

The increasing demand for analytic services by China’s customer-centric companies is the reason why Scott Likens, Information and Analytics Leader at PwC China, moved to Hong Kong from the United States more than a year ago. “There’s a realization that [GDP] growth in China can’t sustain, so companies are starting to look at how to use data more intrinsically in everything they do, to understand the customer better,” he says.

Mazars is also expanding its analytical capacity. “It is a question of enhancing client service, and of growing efficiency,” says Mark Kennedy, Partner at the firm’s Dublin office and a member of Chartered Accountants Ireland. “For our clients it’s a question of gaining better insights from their work with us.”

Data analytics, say the firms, presents an opportunity to differentiate among business advisory service providers. “You need to… separate yourself from your competitors otherwise you just get into a price war,” says Sitao Xu, Chief Economist at Deloitte China. “That’s why expanding research and data analytics functions is important.”

**Transforming businesses**

Turning clients’ raw data into high quality decisions is generally a complex process that is approached by PwC in three layers. The first step is to get the foundation right, says Likens. “That means, making sure we have quality data, we have accessibility to the data and we have data in real time – it’s an investment that isn’t necessarily exciting but we have to get it right.”

The second stage focuses on creating insights and analytics from the data, he adds, equating this process to fishing. “There’s a lake of data of which we have to fish out the right pieces that make sense for businesses,” Likens says. “It’s not about big data, it’s about smart data.”

Finally, PwC helps chief executives “visualize” the data and then use the insights gained to transform operations. “Around 90 percent of data in the world today was created in the past two years,” he says, citing IBM statistics. “We have to make data simple to understand and therefore help clients make decisions faster.”

An example of a so-called data visualization tool that KPMG’s Insights Centres will
be using is one designed by Cisco Systems. “This technology allows us to look at companies’ sustainability and viability for the years to come,” explains Zarrella. “We end up helping to predict whether a company can survive or not.”

Wong at GCE Consulting looks back at how the data analytics landscape has evolved in the past decade with the emergence of social networks, and the streams of social data that come with it, such as the messenger services Weibo and WeChat.

These digital channels enable a real-time connection with consumers and their views about brands or products – information that companies are seeking to collect and harness. “In China 10 years ago, data on behaviour or attitudes was very hard to get,” says Wong. “But now these things can be easily captured and made into more meaningful information.”

However, ensuring the quality, privacy and accuracy of this new set of data still has its complexities, notes Likens. “There’s multiple languages, cultures and geographies all being mixed together... understanding the sentiment of what they’re saying or what they really mean is difficult when you have to bridge across Chinese and English, sometimes even including local slang,” he says.

**Group effort**

Many believe that turning big data into big value will take an entirely new ecosystem, such as “a platform that pulls together stakeholders, such as vendors and customers, so that information can be shared,” explains Wong.

The aim of this platform is to leverage both internal and external data to obtain valuable, actionable insights for companies to make better decisions. “A lot of companies will try to drive ecosystems to pull in their stakeholders and form a common platform. It’s what some European automotive companies that make electric cars are doing right now,” he says.

Likens believes this trend could even help companies tap mountains of untouched data. “There’s tonnes of usable data that we haven’t looked at and typically it’s within the organization somewhere but it’s never looked at holistically,” he says. “That’s where this modernization of data platforms has to be focused on.”

Getting everyone together to share information will be challenging, especially in China, given the barriers around privacy and data protection. “What the government should do is create a framework for this ecosystem and then let all private enterprise and everybody else start feeding off each other,” says Zarrella at KPMG.

The lack of training and solid skills to analyse the business implications is a key barrier for accounting firms in Hong Kong. “Talent that understands customer experience as well as the maths and analytics side of how we find insights is a unique skill, [and] especially here it’s a new skill,” says Likens.

The answer, he says, isn’t to continue flying in experts from around the world. “Finding that combination of art and science is really important to me,” he says. “I think it is a skill we can find and grow
here organically in China and that’s really important for long-term success.”

The next big thing

It’s no surprise that accounting firms release a regular stream of in-depth thought leadership material. Today’s firms recognize that the power of thought leadership content goes beyond building up their reputation.

“The work associated with generating thought leadership drives the firm intellectually and essentially paves the way for services, methodologies and new and stronger client relationships,” says Kennedy at Mazars. “The marketing effect is an important by-product – it is our means of sharing our views.”

Reports on audit, tax and industry-specific trends stem from first hand research. This movement is escalating, says Xu at Deloitte, who leads a research team at the firm. “We want to grow financial services and we want to grow consumer-related research so we are utilizing our newly created Global Delivery Centre,” he says.

The Chongqing centre, which launched earlier this year, provides Deloitte’s Chinese and North Asia enterprise clients with information technology and business process services.

Despite the rich anecdotal data that firms’ thought leadership units provide, few client companies know how to make the data relevant to their business. “If you had 100 corporate executives in a room, 95 percent of them will say that it’s a great thing, but [don’t know] what we [should] do with it,” Zarrella says.

To tackle this issue, firms are beginning to focus on utilizing data analytics to derive even deeper insights for thought leadership purposes. Mazars, for instance, used the process for its recent publication, How to be a Stand Out SME, which drew on data from various countries to focus on what drives small- and medium-sized enterprises.

Others are starting to look at how to use data analytics to transform ideas into action. Zarrella takes his firm’s recent China’s Connected Consumers survey, which analyses responses from more than 10,000 luxury consumers in China on their online spending patterns, as an example.

“How we can tie that information back to what clients are doing in their organizations and how you’re getting a return on that, is what we’re talking about,” says Zarrella. “There’s this wonderful insight that comes out of that thought leadership and when you put together with analytics then all of a sudden you have something super powerful.”

Big data, small companies

While most industries are serious about creating value from an ever-growing volume of data, observers note that some sectors standout out more than others. Consumer-facing industries, with a mix of virtual and physical customer touch points, use data to understand “moments of truth,” says Likens.

“Airlines, for example, are monitoring social media to pick up travel disruptions being talked about by customers online to allow them to pro-actively contact other travellers to notify them of changes to an itinerary or a re-booking,” he says, adding that this is sometimes faster than internal systems and management would be able to find out what the issue is.

“Retail shops are leveraging sensors to understand footfall and crowd flows at a level of detail that can help them redesign floor plans or pro-actively adapt rents based on crowd flow,” Likens adds.

A movement towards customer-centric views has become the driving force behind major investments in data and analytics by the financial services sector. “In Hong Kong, the sector that is probably going to be asking about this and is most excited about it is financial services,” says Zarrella at KPMG.

As well as banks and insurance companies, the wave of data analytics start-ups is also expected to play a major role in this new form of service. “Start-ups in Hong Kong are creating new technologies and visualization tools, and they’re asking: ‘How am I going to get the senior business guy to see some of this stuff?,’” says Zarrella.

Companies who fail to utilize big data insights will fall behind the competition, says Wong at GCE Consulting. He cites the recent high-stakes mobile payment war between Chinese Internet companies Alibaba and Tencent. “ Telecom should be a more appropriate platform to do Internet banking and mobile electronic payments,” says Wong. “They just missed out on the chance.”

Data analytics, Wong adds, has led to blurring of boundaries across industries, with companies today pursuing cross sector growth. “While payment may not be your main business as a telecom operator, it’s important to think about other initiatives in order to survive in the future.”

Wong looks back down at his nifty fitness tracker. To avoid missing out on game-changing business opportunities in future, companies, he notes, have no choice but to capture the abundance of sensor signals that power-up Internet of Things devices, and enable access to real-world data.
There is still about two and a half years before HKFRS 9 *Financial Instruments* kicks in, but banks and other corporate entities are already facing many challenges preparing for its implementation, as Alfred Romann reports
Any new accounting standard presents its own set of challenges, but banks and financial institutions have discovered that the adoption in Hong Kong of the new International Financial Reporting Standard 9 Financial Instruments is particularly arduous.

For a start, the new standard, scheduled for formal application on 1 January 2018, makes significant changes to the way financial assets are measured, introduces a new model for expected credit losses and new requirements to tackle hedge accounting.

“It will require us to look at our portfolios and the data we hold about them in a different way, and will change the way we will have to explain our business and our performance to our shareholders,” says Tony Bloomfield, Regional Chief Accounting Officer at HSBC and a Hong Kong Institute of CPAs member. “It is a challenging process that requires quite a bit of preparation.”

According to Bloomfield, the implementation of HKFRS 9 is the most comprehensive change in accounting standards to have occurred since the implementation of IFRS in Hong Kong.

There are three main components to HKFRS 9, says Byron Khoo, Professional Practice Partner at EY in Hong Kong and an Institute member. “The first is classification and measurement of financial assets and liabilities, the second is impairment of losses associated to financial assets and the third is how it deals with hedge accounting.”

International banks have multi-year projects underway to determine how best to introduce the new standard into their reporting systems before the implementation date, while smaller banks are also considering how they will be affected.

In relation to impairment of losses, Khoo says the standard requires entities to be more forward thinking and will require companies to record losses earlier and, perhaps, use more discretion. “With HKFRS 9 there is a lot more judgment and subjectivity involved,” Khoo says. “Credit risk management and processes will have to be better connected… and risk modelling and data will have to be more intensively used.”

The standard moves away from an incurred-loss model focused on historical
In Hong Kong and an Institute member. “A lot of people were concerned about how the banks recognized impairment losses on their loan portfolios. Basically, they were waiting until the bad news event, the triggering event, had happened, and then they would book the loss. It’s what they call an incurred loss model,” says Stevenson. “You tended to get the bad news very late under the old model.”

The new standard also sets out new criteria for the classification and measurement of financial assets and records debt instruments using amortized costs. It also makes provisions for how the value of equity instruments is calculated.

For small- and medium-sized enterprises, the shift should be fairly straightforward because they are less likely to use complex financial instruments or hedge accounting. Larger companies, particularly banks and other financial institutions, are likely to find that compliance with the standard requires a lot of ground work. “It will require those types of institutions to review and reclassify all of their portfolios of financial assets into three new categories for classification and measurement,” says Michael Monteforte, Director, Advisory Services, and Financial Risk Management Leader at KPMG China in Hong Kong.

HKFRS 9 classifies debt instruments under the three categories of amortized costs, fair value through other comprehensive income and fair value through profit or loss. Equity instruments are always measured at fair value.

Looking to the future

The new standard simplifies the asset side by providing for two categories – amortized cost or fair value – as opposed to four at the moment. Derivatives have to be included in fair value, which could lead to more profit-and-loss volatility.

At the same time, investments in equity instruments have to be measured at fair value but companies can make a one-time choice to put forward changes in other comprehensive income from other instruments as long as they are not held for trading. If they are held for trading, then changes in fair value are presented in the profit or loss.

Although HKFRS 9 requires companies to measure the risks that they hedge more effectively, companies can designate an entire instrument or a piece of it for hedge accounting as long as they can designate and measure the risk component of a hedging instrument.

The new hedge accounting rules could also benefit some SMEs that use hedging accounting requirements.
• IFRS 9 eliminates various categories of instruments that were available under IAS 39 including “held to maturity,” “available for sale” and “loans and receivables.” Instead, it focuses on categorizing instruments under either fair value or amortized costs.
• Under IFRS 9, entities have to recognize credit losses earlier.

The introduction of Hong Kong Financial Reporting Standard 9 Financial Instruments will usher in a number of changes in the way companies recognize and measure financial assets, liabilities and contracts.

HKFRS 9 is based on the International Financial Reporting Standards 9 that the International Accounting Standards Board has been introducing in stages since 2009. IAS 39 Financial Instruments, which IFRS 9 replaces, is generally thought of as unfriendly due to its complexities and internal inconsistencies. Some of the key changes include:

• IFRS 9 includes a new logical model to classify and measure financial assets and liabilities in financial statements and how these should be measured going forward. The new approach is based on a single model that replaces the complex and rule-based requirements under IAS 39.
• A new approach to classify and measure financial assets and liabilities is based on a single impairment model, replacing the complex system that was a feature of earlier models.

A significant change is that HKFRS requires entities to recognize impairment amounts equivalent to 12 months of expected losses from the first day of the issuance of an instrument. Under HKAS 39 entities did not have to recognize impairment losses until after seeing objective evidence of a loss event occurring, such as a borrower showing signs of financial difficulty.

Because HKFRS 9 requires companies to make impairment provisions in advance, some could stay away risky businesses to avoid reporting losses. “The biggest change is in the impairment model,” says Gary Stevenson, Technical and Training Director at BDO in Hong Kong and an Institute member. “A lot of people were concerned about how the banks recognized impairment losses on their loan portfolios. Basically, they were waiting until the bad news event, the triggering event, had happened, and then they would book the loss. It’s what they call an incurred loss model,” says Stevenson. “You tended to get the bad news very late under the old model.”

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Financial reporting

for foreign currency. “Hedge accounting becomes a little more flexible when compared with the current standard,” says Khoo at EY.

Many companies might have stayed away from hedge accounting in the past because the rules were too complicated. “If some companies are doing fairly big hedges and they have had difficulty getting all the hedge rules met in the past, this could be helpful to them,” says Stevenson at BDO.

Rethinking a business

HKFRS 9 would have a significant impact on financial statements, even for companies not involved in banking, according to Deloitte Technical Partner William Lim, an Institute member. “Management of these entities should not be lulled into the false sense of security that HKFRS 9 will only affect financial institutions.”

Monteforte at KPMG points out that three different activities will be affected by the shift to HKFRS 9. “That entails a complete reengineering of how these institutions are going to calculate their provisions and impairments,” he says.

The first activity will be adapting existing credit risk rating systems or developing new systems to track and classify debt instruments or loans into one of the three stages of IFRS 9 impairments, he says. “By classifying the various instruments, firms can then decide whether to apply either a 12-month or a lifetime loss for those impairments.”

The second activity is the need to develop models to calculate impairment amounts,
which will require detail. Banks and other financial institutions may have to invest in new information technology and modelling systems.

Calculating expected credit losses requires firms to consider a probability-weighted outcome of the financial instruments, the time value of money and the best available forward-looking information. All these complex variables will have to be calculated for every financial instrument.

The third activity requires the re-engineering of accounting systems to enable companies to generate all the accounting entries they will need to meet the standard, including more information on valuations of financial instruments at specific points in time and recognition of credit losses even if no credit event has occurred.

Companies have to consider the difference in credit risk from the date it was recognized to the current date but some do not have that historical information. “If it is too burdensome or costly to go back in time and obtain that loan origination data, then you can make a judgment call,” says Monteforte.

This allowance makes it possible for companies to classify financial assets based on this judgment call on the first year of implementation. By the second year, however, companies have to assess the credit risk on all assets. Monteforte warns that companies should be careful when making this judgment call to avoid taking a very large hit on the second year of implementation.

**Sound judgment needed**

Many financial institutions in China and Hong Kong already have plans to implement HKFRS 9 before the deadline at the beginning of 2018. Some have already invested time and money to have their plans in place. In its latest annual report, HSBC says that it has been assessing the impact that the new standard will have on its reporting since 2012.

For large companies, time is short, says Monteforte. “It requires a lot of things, such as changes to your credit practices, data, modelling, IT systems, accounting practices and procedures and the tools you need to actually calculate this IFRS 9 impairment.”

HSBC acknowledged in its annual report that due to the complexity of the classification and measurement, impairment, and hedge accounting requirements and their inter-relationships, it is not possible at this stage to quantify the potential effects of implementing HKFRS 9.

A set of best practices has yet to evolve and there are a few areas in which judgment is required and which have a significant impact on how risks are calculated. Strong as the new standard might be, more changes are likely in the future.

The interaction of IFRS 9 with other global systems is not fully resolved, say experts. “There is a big hole,” Monteforte points out. “The convergence with generally accepted accounting principles in the United States is still not done. In terms of coming up with a unified global standard the U.S. has diverged.”

At the same time, there has been little discussion among banks about how the standard will interact with requirements for reserve capital set by the Bank for International Settlements under Basel III, the comprehensive prudential regulation reform measures developed by the Basel Committee on Banking Supervision designed to strengthen regulation, supervision and risk management.

“This is requiring a lot of careful thought as to how we go about this – how do we determine our expected losses,” says Bloomfield at HSBC. “How do we explain divergences between what did happen and our expectations? These are all completely new concepts in the financial reporting world.”

That the preparation is tough is something that even the largest entities acknowledge. “Implementation aside, some entities are already thinking about the application of the expected credit loss impairment model once HKFRS 9 comes into effect, and particularly the consequences of making a wrong judgment about expected losses or, more seriously, earnings management,” says Christina Ng, Head of Financial Reporting and Standard Setting at the Institute.

Yet the standard is an improvement and well worth the effort. “HKFRS 9 reflects the economics better,” says Khoo at EY. “From a financial statement user’s perspective, it provides better and more useful information and more timely information.”

### Key differences in classification of financial assets and liabilities

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<tr>
<th>IAS 39 classification</th>
<th>IFRS 9 classification</th>
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<tr>
<td>Rule-based</td>
<td>Principle-based</td>
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<tr>
<td>Complex and difficult to apply</td>
<td>Classification based on business model and nature of cash flows</td>
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<tr>
<td>Multiple impairment models</td>
<td>One impairment model</td>
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<tr>
<td>Own credit gains and losses recognized in profit or loss for fair value option liabilities</td>
<td>Own credit gains and losses present in other comprehensive income for fair value option liabilities</td>
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<tr>
<td>Complicated reclassification rules</td>
<td>Business model-driven reclassification</td>
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*Source: International Accounting Standards Board*
STEADY HAND
IN THE HEART
OF EUROPE
As the European Union’s economic powerhouse, Germany requires a solid and active auditing and accounting profession. Klaus-Peter Naumann, Chief Executive Officer of the country’s Institut der Wirtschaftsprüfer, tells George W. Russell about their unique challenges.

Photography by Jenö Gellinek

Twenty-five years ago this October, Germany’s accounting institute – the Institut der Wirtschaftsprüfer in Deutschland – witnessed the kind of mergers and acquisitions deal that none of its peers had experienced: a merger with another country, as East and West Germany reunited after 45 years of separation.

“At the time of reunification, practical difficulties were at the forefront,” recalls Klaus-Peter Naumann, who had joined the IDW in the previous year when the Berlin Wall separating east and west had been breached. “A state-run economy had to be transformed into a market-driven economy.”

East Germany’s mostly struggling state-owned entities were transferred to a privatization agency and subsequently evaluated by financial professionals. “Decisions had to be made as to which operations could be transformed into new business models and which would have to be dissolved,” says Naumann, who is an economist by profession.

Much of that responsibility fell to the IDW. “The profession did a great deal of work in assisting practical implementation, such as business valuations, preparation or audit of the so-called DM-opening balance sheets, the first use of the currency of the reunited country.”

The IDW’s job was complicated by the absence of an equivalent profession in East Germany at the time. “By taking on a significantly increased workload, the West German public auditors, who were certainly
extremely busy at the time, played a significant role in helping Germany to achieve reunification," says Naumann.

A quarter-century later, apart from a brief sojourn at Schitat Schwäbische (now EY) between 1993 and 1995, Naumann looks back on a career spent largely at the IDW. He has been Chief Executive Officer since 2007, and has served as Chairman of the Board since 2001.

“When I started, my main focus was on technical work,” he says. “Now it is more a question of looking at the perspective of future development and assisting the profession in positioning itself successfully. My main task is to keep the profession up to date on new challenges and ensure we are appropriately prepared for them.”

Mapping the future of German accounting, says Naumann, can work only in an atmosphere of trust. “We perceive ourselves as an organization that supports the profession in all areas relevant to its work, whether technical, political or commercial,” he says, adding that the task is aided by the IDW’s members seeing themselves as a “community” that depends on cooperation to achieve their goals.

Confronting crises
Naumann says that new challenges mainly arise from changes in professional requirements, but also in the expectations of members, clients and regulators. “My role also includes the development of the German profession in the international context,” he notes.

Germany’s role in the European Union – it is the largest member economy with more than 80 million people and gross domestic product in 2014 of €3.65 trillion – has given IDW a prominent cross-border role, especially during the EU’s sovereign debt crisis that began in 2009 and resulted in bailouts of major financial institutions.

In 2009, occasioned by the euro currency crisis, the IDW issued a landmark position paper on the valuation of Greek government securities. “This paper was based upon both political decisions that had been made and that were anticipated,” says Naumann. “Decisions aimed at supporting Greece.”

The paper assumed help for Greece would not be provided solely by EU member states or the EU itself and that Greece’s creditors would also have to participate. Naumann says the paper’s correct reading of the situation, and the positive reception to its issuance, prompted a new research initiative: IDW Trendwatch.

“We established a working party at the IDW tasked with both identifying and contributing to socially and publicly relevant themes in order to enhance the public’s perceptions of the profession,” says Naumann. “This working party now looks at topics of particular importance, coordinates the experience already held, works on the important messages and decides on appropriate communication strategies.”

The euro crisis, which continues and which formed a part of the 2008-2012 global financial crisis, gave rise to concerns over corporate governance, of which Germany has long been considered a model. “We have a well-established system,” says Naumann. “On the one hand there is management and on the other hand the supervisory board, which supervises management’s activities.”

Naumann adds that the crisis taught IDW members the importance of communication among the auditors, audit committees and supervisory boards, as well as within corporate entities. “Perhaps we need to improve our communication in the auditor’s report, too, by adhering less to formalities,” he suggests.

IDW has proposed that directors who intend to enter into particularly risky transactions that could threaten the company’s existence should be required to obtain supervisory board approval, irrespective of the probability of failure. “This does not, however, mean that the supervisory boards should assume a management role,” says Naumann.

Cross-border challenges
The German discussion of fallout from the crisis became an international conversation, leading to increased integration of oversight of capital markets and financial services in Europe, Naumann points out. “The role of national regulators is declining, while that of institutions such as the European Central Bank and the European Securities and Markets Authority is increasing,” he says.
As a result, the IDW will be seeking to increase interaction with such organizations, while Naumann also sees a bigger role for the Brussels-based Fédération des Experts Comptables Européens, the accounting profession’s regional voice. “The IDW is represented on all of FEE’s policy groups and committees and plays a key role.”

While the first attempts at harmonization of financial reporting within the EU date from the 1970s, opt-out provisions available to individual countries severely limited standardization. “This did not change until the adoption of IFRS for public interest entities,” says Naumann.

He notes that the IDW was instrumental in the debate that led to German public interest entities being able to apply IFRS. However, he doesn’t expect “harmonization will – beyond the application of IFRS – lead to consistent financial reporting within Europe in the foreseeable future,” he says.

Naumann believes national accounting bodies will continue to play an important role, particularly through the Accounting Standards Advisory Forum, which was established in 2013 as a global board of advisers to the International Accounting Standards Board. “They will be tasked with ensuring national aspects are included in the global debate and informing their countries about international developments. This will include using the knowledge obtained to advise the national legislator,” he adds.

IDW members remain vital to Germany’s own unique business interests, such as the Mittelstand, its thousands of medium-sized companies hailed throughout the world for technical innovation, precision engineering and export-orientated mindsets.

The IDW has launched a dedicated Mittelstandsinitiative directed at medium-sized companies. “As part of this we have developed a support tool that depicts the audit process,” says Naumann. “We offer this free of charge to companies for their internal training purposes.”
“It is precisely for the Mittelstand that the IDW is of special significance,” he adds. “In this sector, the auditor is in demand as an all-rounder, to provide advice on taxation issues, on setting up a business, and on succession planning. There are many Wirtschaftsprüfer [accountants] working for medium-sized firms.”

Future imperfect
Despite such successful niches, Naumann acknowledges that some areas of the profession are struggling. “We are aware that our members face increasing competitive pressures,” he says. “This has led to heavy demand for support from the IDW, especially for technical inquiry services.”

Small practitioners have particular challenges, Naumann believes. “It is our role to point out the opportunities each firm has,” he says. “For some, this might mean developing their assurance services further, while for others it may be better to offer different or new services or to form into a cooperation arrangement among smaller practitioners.”

While Naumann says the profession of Wirtschaftsprüfer maintains a generally high reputation in Germany, the IDW must continue to communicate their role to the general public. “It is not easy to convey auditing and the responsibilities of the auditor to the public,” he says. “There is also a danger that inappropriate behaviour by a single member will be attributed to the profession as a whole.”

There are broader challenges for the future: Germany has one of the lowest fertility rates in Europe, with an ageing population and smaller cohort of youths to produce the accountants of the future. “The professional examinations taken in Germany demand a high degree of commitment and effort and the high failure rate can be a deterrent for many young people,” Naumann says.

To ensure a sufficient number of well-qualified and committed candidates, the IDW is working to demonstrate to young people how diverse and challenging the profession can be and what developmental potential it can offer. “While audit is an important anchor product, the profession is developing a number of new services for its clients at the moment.”

Naumann insists that these services are not standard business advisory tools that can be found outside the profession. “These services ultimately offer security to the client,” he says, “security as to the reliability of systems and processes and about the results these will deliver.”

The accounting profession, he says, must allow itself to be modernized so that it can enhance its contribution to the way in which companies are governed, not just in the interests of the entity itself, but also in the interests of its various stakeholders. “There is no patent remedy,” Naumann concedes. “However, I am convinced that the profession will continue to assert itself successfully in the future.”

The Global Accounting Alliance facilitates cooperation among 11 of the world’s leading professional accounting organizations, including the IDW and the HKICPA.
A BRAND FOR ALL SEASONS

Peter Lui, Chief Operating Officer of Pryde Group, the Hong Kong sports equipment maker and a well-known international brand, explains how to stay competitive amid rising costs and rapidly changing consumer trends in surfing, cycling, skiing and more exotic pastimes. George W. Russell reports from Shenzhen.

Photography by Juliet Shayne Lui
Despite 16 years of working at Hong Kong sports gear maker Pryde Group, Chief Operating Officer Peter Lui admits he doesn’t snowboard, windsurf or sail. His daughters, he adds, are more likely to be hitting the shopping malls than the ski slopes.

However, one skill that does run in the family is crunching numbers: the son of an accountant, Lui gravitated towards the profession at an early age. “In secondary school there’s a subject called principles of accounting,” he recalls, sitting at the back of a van on his twice-weekly commute from his office in Tuen Mun to the factory in Shenzhen. “It was easy I thought, and asked myself why not become an accountant, too.”

After graduating from Hong Kong Baptist University and joining Peat Marwick Mitchell & Co. (now KPMG) as an audit junior, Lui found he had a natural affinity for business, though it took a good 12 months to find this out. “The first year is a frustration,” he says with a chuckle. “Go get that information, go do this photocopying, go deliver these files to a client’s office.”

The second year, however, was quite different. “Things really changed,” he recalls. “At that time I was working with a department that looked after financial institutions, such as Belgian Bank and ANZ. I was able to look inside from a macro-economic perspective and look at the whole business.”

With HSBC’s Shenzhen office as a client, he was also able to experience China’s working environment not long after the country opened up economically. Lui later joined Deloitte, which assigned him to manufacturing clients. There he was able to experience the first stirrings of the Mainland as the workshop of the world.

Three decades later, Lui still marvels at the advantage that his early professional experience gave him. “If you’re working for a bank in, say, the corporate banking side, you don’t know what is happening on the retail side, but as an auditor you’re looking in and you get a feel for the whole business – how the bank operates, and what can go wrong.”

His on-the-ground expertise has given him responsibility beyond accounting and finance, as the operational leader of a well-known Hong Kong precision manufacturing enterprise when he moved from practice to business later. “When an operational decision is made, a lot of people don’t realize the financial impact. As a CPA, I can envisage what will happen.”

Changing landscapes

Lui acknowledges that his appointment in 2014 as COO of Pryde Group caused ripples in the workforce. “I’m a pure financial guy and I was put into operations,” he says. “Now the factory reports to me and culturally that’s a big difference in their mind-set. People believe there will be more cost control.”

There has been some restructuring already: Pryde Group has made a string of acquisitions, such as that of the California-based paddle board brand Imagine in 2012, and revamped its European distribution network in 2013. “That took years for group management to negotiate and to compromise with parties, including employees,” says Lui.

Transfer pricing was another challenge, he adds. “We carried out internal reviews on transfer pricing to show goods and services are sold between group companies at arm’s length,” he says, adding that the Organization for Economic Cooperation and Development’s regulations served as a template.

While costs have risen sharply for all Mainland-based manufacturers in recent years, Lui says the objective is to drive efficiency. Recalling when labour costs in Shenzhen were a tenth of those in Hong Kong, Lui says manufacturers could afford...
to avoid efficiency for 30 years. “You didn’t have to push yourself,” he says. “But now you can’t be lazy.”

Guangdong sets minimum wages and the cost of living in Shenzhen is among the highest in China. Most of the company’s factory workers are highly skilled. Sail-makers trim lengths of Dacron, Monofilm and Mylar on custom-built sewing machines, while windsurf boards are handmade from carbon sandwich.

“We have a core team that has already been trained,” Lui says. “It’s not easy to get new people so you have to keep your workers.” That means providing basics such as accommodation and food – most of the labour force is from northern China. “Each Chinese New Year we give enough incentive to make sure they come back.”

Without flexibility on labour costs, the objective, says Lui, is to homologate – set a standardized approval system – starting with the design stage. “We have to make sure each product design has the right standards, looks sexy and has enough appeal to end users.”

In years past, every product was updated – or even redesigned – each year. That’s not necessarily so nowadays. “It’s all about balance,” says Lui. “We have different brands and different brand managers and it’s their job to capture the best feedback from our markets. Our people – designers and business managers – must judge what new products should come with new features.”

**Brand awareness**

The ability to make forecasts is critical to Lui’s role as COO at Pryde Group, which was founded by Neil Pryde, a New Zealand expatriate yachtsman, as a sail-making venture in 1963. Pryde, who retired as chairman last year, built the first factory in Fanling. The company was a pioneer in Mainland manufacturing and moved production to Guangdong province in the 1970s.

Today, more than 800 workers make Pryde Group’s range of sails, masts, kite boards, and other sports and leisure accessories at a spacious plant in Fuyong, a former fish-farming area in the west of Shenzhen, near the airport, now reclaimed and dotted with low-rise factories.
Lui’s career as a professional accountant in business began in 1990 when he joined Elite, an electronic manufacturer in the Mainland. “The factory made telecommunication products for overseas markets and had made substantial investments on land and facilities in Shekou,” he says. In 1998, the Asian financial crisis hit, engulfing regional currencies, including, eventually the yen. “A large Japanese multinational brand was a major customer, but they moved manufacturing back to Japan because of the currency. That was a challenge.”

It was then that Lui decided he wanted to work for a company that had control of its own brands. “Around then, people started talking about brand equity,” Lui recalls. “This was a very new idea to me. So I thought I would study brands and what became known as brand management.”

At the same time he was introduced to Pryde, beginning a working relationship that has lasted for more than a decade and a half. “I joined Neil Pryde as group chief financial officer,” says Lui. The company, he adds, already had a sound structure, with a solid cost-control platform underpinned by supportive policies in the Mainland for export-orientated manufacturers. “We leveraged this controlled cost to expand our business into North America and, in particular, Europe.”

Despite its Hong Kong roots, Neil Pryde is firmly an international brand. “You can really see in France, and in Germany, our name is out there,” says Lui. “Neil’s fans will come to events and they love to see him and take pictures with him.”

Pryde Group sponsors a number of activities worldwide and provided windsurfing equipment to the 2008 and 2012 Olympic Games. The company maintains key design, distribution and retail staff in Europe and North America.

Expanding horizons
In recent years, Pryde Group has expanded into bicycles (made in Jinan, Shandong province), cashing in on the rapid recent growth of cycling in Hong Kong and its higher profile: Hong Kong will stage one round of the UCI Track Cycling World Cup for the first time in January 2016. “Our road machines, sold under the NeilPryde Bikes brand, sell very strongly in Hong Kong,” says Lui.

In a more traditional area, water sports, Pryde Group recently launched a range of stand-up paddle boards. “It’s a new sport in the market and we have come up with new inflatable boards,” says Lui. “You don’t have to carry a long board so it’s simple to set up and easy to transport.”

Europe and North America – despite their slow-growing economies – will continue to be Pryde Group’s major markets. China, even with its economic potential and increasing domestic consumption, remains a minor player when it comes to personal watercraft. “Rich guys in China with money to spend will buy a 20 or 30 metre yacht,” says Lui. “They won’t go windsurfing.”

However, succeeding generations of Chinese consumers will be obvious targets for the company, Lui forecasts. “China is a big overall market, and it is definitely a challenge we are going to face in the future,” he says. “We make lifestyle products and the next generation is more the lifestyle consumer.”

The company, which deploys a significant marketing budget, would like to see more events in the Mainland at which to promote its products. “You need to get the momentum going,” says Lui, “and you need the spaces, the events, the faces.”

Lui says he will continue to work on streamlining product development and manufacturing processes. “I want to unleash our designers’ creativity and get products to the market at the best price,” he says. Many of the company’s products use carbon fibre, a material that requires government approval in some countries to ship to China. To improve efficiency, Pryde Group now sources the resin from Japan and the United States.

Despite the technological revolution going on across many Mainland factories, labour-intensive work is essential at Pryde Group. “I was in the Jinan factory and I saw that they use a robot to paint our products, but it only does 10 percent of the job,” Lui says. “I asked why and was told that the robot cannot do details – it just sprays a final coat of lacquer. Factory ladies do the five other coats.”

Thus the factory ladies are likely to keep their jobs for the foreseeable future. “Cutting back doesn’t always help,” says Lui. “I’m here to build.”

“I want to unleash our designers’ creativity and get products to the market at the best price.”
Go, go, gadget

Gizmos & wondrous widgets

As digital devices become integral to everyday life, CPAs are among the most enthusiastic adopters. Tigger Chaturabul discovers the go-to gadgets for tech-savvy Institute members seeking to streamline their lifestyles

Photography by Juliet Shayne Lui

Victor Tan glances at his wrist and is subliminally motivated to do better. The Director of i3 Solutions, a technology and facilities consulting company, uses an activity tracker to monitor his daily lifestyle and be mindful of his health.

Tan, a member of the Hong Kong Institute of CPAs, wears a Garmin vívoactive smart watch, designed to help users maintain a healthy balance between work and life using GPS technology, built-in sports apps and smart notifications, ensuring seamless transition from work to workout. He wears it nearly 24 hours a day. “Although I can definitely live without it, it’s very difficult not to be connected to technology in this day and age,” he says.

While gadgets are only an extension of information technology, Tan encourages fellow CPAs to embrace connectivity and digital data in work as well as leisure. “My watch allows me to stay focused in the office,” he says. “Instead of checking email notifications on my mobile phone during a meeting, I can discreetly glance at my watch without disrupting the workflow.”

The integration of gadgets into the busy lives of professionals in Hong Kong, including CPAs, is inevitable as the digital landscape evolves. While some devices boost efficiency and others upgrade productivity, some CPAs utilize them purely as a way to transform traditional lifestyle activities into fun and fresh experiences.

Given the sedentary lifestyle of most accountants, Tan recommends wearing an activity tracker to monitor personal health. “If you don’t move for two hours, the watch will actually beep,” he says. “You can also track your steps and sleeping pattern and it gives you plenty of data to analyse.”

The data are not useful on their own, he notes. “It’s adding that analysis and interpretation that’s vital. The minute you have data, you’re instantly motivated to do the same thing better the next time,” says Tan. By tracking his steps daily, he now has a reference for improving his fitness. “I’ve found that I walk more now, with an average of 7,000-8,000 steps on a normal working day.”
“I’m no longer fiddling with the limited range of traditional headsets or trying to move wires out of the way to read papers.”
Handsfree productivity

Tangled wires are ancient history for Perry Leung, a Transaction Advisory Services Senior at EY. The Institute member easily slips his Backbeat Go 2 Wireless Earbuds in and out of his pocket while he is on the go, whether in the office or on the jogging track.

The earbuds are a product of Plantronics, an American consumer electronics brand that redefined aviation headsets in the early 1960s and was used by astronaut Neil Armstrong as he became the first person to step onto the moon. The company aims to remove barriers between the user and smarter communications. Leung’s wireless earbuds connect to his mobile phone and computer by Bluetooth to play music and take phone calls.

“Communication is very important in my role as a consultant,” says Leung. “When I facilitate transaction processes, I have to stay in contact with clients through teleconferencing quite often and I’ve found long wires especially inconvenient, especially when they start tangling around you.”

Leung now has his hands free to shift through documents or reference information on his computer during a client call. “I can focus on answering their enquiries instantly, which in turn improves the quality of service I can provide,” he explains. “I’m no longer fiddling with the limited range of traditional headsets or trying to move wires out of the way to read papers.”

Due to Leung’s job nature and passion for music, a friend introduced the buds to him as a birthday gift. The simple Bluetooth connection allows him to transition seamlessly from a conference call to his upbeat rock playlist, which is also his ultimate motivator when he’s working out. “It was a way to encourage me to get away from the office and do more sports after work,” he says. “Having the earbuds actually motivates me to run more often because they make sports more fun.”
Wider angles

Friendship Choy never misses a moment with his 11-year-old daughter Hayley or his Yorkshire terrier Dordor. The Director of Finance, General Accounting at GoPro Hong Kong and Institute member avidly uses his own GoPro HERO4 Silver Edition Camera to capture the best memories with his loved ones – without having to sacrifice his interaction with them.

One of the reasons a GoPro stands apart from average cameras is its wide-angle lens. “With traditional cameras, you spend a lot of time making sure the objects are within the screen but with a GoPro, you can get quality shots while playing with your pets or kids,” says Choy.

As one of America’s fastest-growing digital-imaging companies today, GoPro’s cameras have surged in popularity among consumers looking to document their active lifestyles in a dynamic way. The simple-to-use and highly durable technology has ridden ocean waves and sky-dived from aircrafts, usually strapped to someone’s head or chest with special mounts within waterproof cases.

While GoPro has just begun making its way into the Hong Kong market, TV entertainment channels have already started using them as powerful imaging tools. “My daughter grew up watching me use the GoPro at home and now, when she sees people using GoPros on television, she gets a bit excited to see a gadget she’s so familiar with,” says Choy.

From a CPA point of view, Choy is particularly interested in GoPro’s successful growth as a business. “GoPro’s increasing popularity is an interesting topic for CPAs to pay attention to,” he says.

After filming enough footage, Choy enjoys switching over to the GoPro Studio software to edit his videos. “GoPro is one of the few gadgets today that actually encourages you to have more human-to-human interaction rather than promoting individual use,” he says. “When you make a video with GoPro, the ultimate goal is to share it with your peers and allow others to experience the same things you do.”
Plugged-in personality

Every morning, a white rabbit named Bobble wakes up Mengqi Tu. Bobble reads the news headlines and informs Tu of the day’s weather because Bobble is an intelligent Nabaztag, a WiFi-enabled desktop robot that takes the shape of a rabbit with detachable ears.

As a Manager in Forensic Services at PricewaterhouseCoopers and a prospective Institute member, Tu’s extensive background in information technology and financial management helps her bridge together the two different fields. “It’s important for CPAs to stay up to date with technology to be able to achieve maximum efficiency at work,” says Tu. “I’m definitely a gadget person and my Nabaztag rabbit helps me stay productive while adding a touch of fun to my personal life.”

In addition to fetching news from the Internet, Bobble can also read Tu’s emails while she cooks or record messages to transmit to other Nabaztag rabbits around the world. “It’s a really fun way to communicate with people instead of just texting on a little screen,” explains Tu.

The Nabaztag is equipped with a button to activate voice control, lights that flash to music or notifications, and magnetic ears that rotate to portray moods or randomly practice tai chi. “It’s really like a pet with a mind of its own,” says Tu.

The French manufacturer Violet first developed Nabaztag before the company went bust. Mindscape Interactive, which bought Violet in 2009, ceased offering support for Nabaztag owners two years later. “By that time, the rabbit had already become almost like a part of the family so discontinuing the service really upset Nabaztag owners,” says Tu.

However, Mindscape released the source code, enabling owners to set up open-source servers. “Many of us came together to bring our rabbits back to life, which in turn created an even closer community and increased my motivation to keep up with developing my own programming.”

For Tu, Bobble is a cute way to experience the benefits of technology. “He keeps me mindful of what’s going on around the world and helps me manage my productivity by centralizing information feeds,” she says. “He really lights up my day.”

“I’m definitely a gadget person and my Nabaztag rabbit helps me stay productive.”
Mobile opportunities

Peter Koo takes cues from the late Apple CEO Steve Jobs to “think differently.” The National Leader of Security, Privacy and Resiliency at Deloitte China carries an iPad Mini encased in a bright green cover to and from meetings as an all-in-one tool for office automation.

With growing developments in Internet and mobile commerce models, Koo, an Institute member, is transforming traditional accounting practices to digital platforms. “How can we use these personal digital assistants to change our operational efficiency for private life and at work,” he asks.

Today Koo can take video calls anywhere in the world, use Internet protocol telephone to call local numbers in Hong Kong and China via Internet, process timesheet reporting and more. “Sometimes I don’t even need to bring my laptop anymore,” he says, adding that with this device, it’s no longer necessary for him to waste paper for work-related print-outs. “It’s actually all on my iPad,” he says with a laugh.

However, Koo wants to take mobile even further than office automation for CPAs. With China’s new Internet Plus policy announced in April 2015 to integrate mobile Internet and cloud computing with modern manufacturing, opportunities are up for grabs in any industry. Mobile commerce is making it possible to buy things like petrol with e-cash. Contracts to leasing or buying cars and apartments can be performed on mobile platforms by delivering electronic commerce capabilities directly to consumers’ devices.

Koo wonders if CPAs can help not only to improve our operational efficiency but also provide mobile commerce consulting to their clients. “All of this digital financial and operational information can be extracted and turned into legible and digital forms to assist making meaningful management decisions which our clients can control by their fingertips over their personal gadgets,” Koo suggests.

“As CPAs, we do have in-depth knowledge and exposure in specific industry,” says Koo. “Apart from using gadgets in our daily lives, we should think about how they bring us business opportunities and value proposition to our clients.”
The nature of non-profit organizations

From schools, youth and elderly organizations and churches to chambers of commerce, non-profit organizations make communities more liveable places. Unlike for-profit businesses that exist to generate profits for their owners, non-profit organizations exist to pursue missions that address the needs of society, such as religious, education, health, social services, commerce, sports and arts.

Non-profits do not have commercial owners and must rely on funds from contributions, membership dues, programme revenues, fundraising events, public and private grants and investment income. Although non-profit organizations may obtain some initial financial support from the government, most of them are self-financing in nature for a longer term. Since their financial operations are quite different from the commercial ones, their financial reporting would have to be prepared in a way to reflect their distinct natures. The table on the next page summarizes some of the fundamental differences between non-profit and commercial entities, with respect to their financial operations.

Challenges of financial management by non-profit entities

In the United States, Statement of Financial Accounting Standards No. 117 requires non-profit organizations to issue a statement of activities instead of the income statement issued by for-profit businesses.

In Hong Kong, such distinct standards in financial reporting for non-profit organizations have not been fully developed. Hong Kong Financial Reporting Standards is a common set of standards for various types of organizations in Hong Kong. With reference to the scope and authority of HKFRSs as stated in the Hong Kong Institute of CPAs member handbook, “HKFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organized in corporate or in other forms... Although HKFRSs are not designed to apply to not-for-profit activities in the private sector, public sector or government, entities with such activities may find them appropriate.”

In particular, since non-profit organizations typically do not have equity owners, there is neither shareholders’ equity nor distributions of equities to any owners. Some people may however incorrectly assume that if an organization is designated as a non-profit, it should not generate revenues that exceed expenses. With limited funding and reserves, generating revenues that exceed expenses is nearly an obligation for a non-profit as it needs to cover its recurring expenses. Some other financial concerns in operations include the following:

- Unstable streams of revenues;
- Increasing operating costs;
- Staffing and related human resources expenses;
- Demand for services;
- Equipment purchases;
- Replacement of old equipment and major maintenance of facilities; and
- Limited channels for financial capital raising.

Importance of prudent financial management: short-term vs. long-term

Most of the institutions in the self-financing degree sector not funded by the government have to assume financial independence. Most of them are in their early stage of development and need, on one hand, to be responsible for short-term financial obligations and, on the other hand, to take care of long-term financial commitments. Some of these long-term commitments include maintenance of facilities, purchase of equipment and development of education infrastructure.

To be prudent in its financial management, a non-profit organization should maintain a balance sheet that is strong enough to deal with potential variations in future cash flows. An adequate amount of reserve would enable an institution to develop plans to allocate financial resources to investments that would nurture the development of quality education in a longer term.

A team of quality teaching staff require continuous professional development through staff training and development programme over time. The campus of a higher education provider needs to be equipped with adequate facilities and technologies for a complementary learning environment. All of these require adequate and continuous financial support.

Without an adequate amount of financial reserve or net asset balance, a non-profit organization could run into going concern or financial difficulties.
especially when there is a sudden change in externality. Under such situations, a prior study even finds that granting authorities could become reluctant to fund activities of non-profit entities whose going concern is at risk (Feng, 2014).

The study shows that contributions to a non-profit would decrease following a disclosure on going concern. Stakeholders could be worried about the long-term viability a self-financing institution if it is found without adequate financial strength. In fact, “having revenues that exceed expenses” is a necessity for non-profit if it hopes to withstand the following events:

- Uneven flow of revenues;
- Unexpected increase in expenses;
- Rising costs due to inflation;
- Increase in programme management and development costs; and
- Increase in borrowing costs, e.g. variable rate debts.

Adequate disclosures on financial and non-financial performance

Nonetheless, some stakeholders suggest the more financial disclosures could help ensure accountability of the self-financing institutions. However, the main question is not merely about the details of financial information disclosures. Even for publicly listed companies, a number of studies reveal the importance of providing non-financial information to enhance understanding about performance of an economic entity. Such information should also reveal the intangibles of an organization, such as its human capital, quality systems in place and allocation of resources for future development, as well as other performance indicators relevant to an education service provider. In fact, sizeable organizations are now asked to disclose information on activities pertinent to their corporate social responsibility and sustainability as supplementary to their financial information.

Another potential misunderstanding by stakeholders surrounds the financial reporting standards adopted for non-profit organizations that are largely the same as those adopted by commercial organizations. There could be misinterpretations of financial results reported; for instance, the concept of reserves could be wrongly interpreted as profits accumulated available for distribution. To deal with potential misunderstandings, an appropriate reporting standard with relevant non-financial disclosures would enable end users to understand and interpret the overall financial condition of a non-profit organization. For example, the “equity” or “net asset position” can be reported in various line items to reflect the purposes of such fund or net asset balances, e.g. “unrestricted,” “temporarily restricted” and “permanently restricted” net assets.

The role of governance and management

After all, governance and management of non-profit organizations needs to be prudent in terms of financial management and allocation of financial resources for future growth and development. Similar to the significance of corporate governance in commercial organizations, accountability of non-profits could be enhanced by a board of directors who have the fiduciary duty, understand the business of tertiary education, and possess expertise in professional knowledge of accounting and finance. Such interdisciplinary knowledge would provide comprehensive oversight for the financial sustainability as well as quality of services delivered by a self-financing tertiary institution.

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Running an effective internal audit function in a cost-efficient manner

Albert Lee and Vincent Leung advise on a solution to help companies cope with changing corporate governance requirements

Over the past decade, there has been significant advancement in the role and scope of internal auditing in Hong Kong as a result of stronger standards and rising stakeholder expectations.

Since the Hong Kong Exchanges and Clearing introduced the Code on Corporate Governance Practices, i.e. Appendix 14 to the Hong Kong Listing Rules in 2005, many listed companies in Hong Kong have already established an internal audit function as part of their governance structure to assist the board of directors and executive management in reviewing the effectiveness of their internal control systems and ensuring that key risks are properly identified and managed.

Moreover, driven by key stakeholders’ expectations evolving since the global financial crisis that began in 2008, internal audit functions of large organizations have assumed greater responsibilities, from the evaluation of internal control effectiveness to the frontiers of enterprise risk management; and from providing assurance capabilities to taking up the advisory role.

However, as it is currently not a mandatory requirement for Hong Kong stock exchange listed companies to set up and maintain their internal audit functions, such functions do not exist in some listed companies and particularly in small- to medium-size listed companies.

In June 2014, HKEx issued a Consultation Paper on Risk Management and Internal Control to seek comments on the proposed changes to the code. One of the proposed changes is the upgrading of the existing recommended best practice of requiring issuers without an internal audit function to review the need for one on an annual basis to a code provision. The consultation, ended in December 2014, also concluded with a code provision that the board’s annual review should ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer’s internal audit function, to be effective for all listed companies from the beginning of 2016.

**Hong Kong requirements**

The requirements on internal auditing in Hong Kong are lagging behind overseas practices. The proposed changes are merely a move to put Hong Kong listed companies on a par with the governance practices in overseas jurisdictions. The New York Stock Exchange and Singapore Exchange have required that listed companies maintain an internal audit function for years. The relevant codes in the United Kingdom and Australia, on the other hand, adopted the “comply or explain” approach to such requirement. For companies required to evaluate the effectiveness of their internal control over financial reporting, the COSO Internal Control - Integrated Framework is commonly adopted.

Companies lacking an effective internal audit function are strongly indicated as having significant potential deficiencies in their internal control systems and, in the absence of other appropriate monitoring, this could contribute to a material weakness. The “monitoring activities” component of an internal control system, as articulated by COSO, emphasizes the importance of performing ongoing and separate evaluations to ascertain the effective functioning of the internal control system. It also ensures control deficiencies identified are communicated to senior management and board of directors on a timely basis.

According to the consultation paper, 51 percent of the listed companies in Hong Kong disclosed that they had internal audit functions in 2012, implying that potentially up to 49 percent of the Hong Kong listed companies may need to consider setting up their internal audit functions over the next several months.

The sizes and competencies of internal audit functions of Hong Kong organizations vary significantly. There are sizeable organizations that have teams of internal audit professionals adequate for covering the issues and risks sourced to various locations of the groups’ operations.

On the other hand, some small- to medium-sized issuers only maintain an internal audit team of one to three persons. The key driver for these smaller issuers to maintain the function is to assist the board in performing the annual review of the effectiveness of internal control system.

Nonetheless, there are a number of issues that hinder the efforts of small internal audit teams to achieve the full potential of internal auditing for adding value to the business and providing the necessary assurance to key stakeholders. These issues include:

- The audit team may not have the necessary skill sets, such as auditing IT-related risks and controls, evaluating IT security, fraud risk assessment and performing data analytics matching up with those required to monitor the company’s business risk exposures.
- The audit team needs effective leadership, such as a chief audit executive with at least 10 years of auditing experience.
- A company may engage in business lines...
totally new to its management and internal auditors. The resources available to the internal audit department may not allow it to grow and scale sufficiently to address newly emerging risks from the company’s growing business.

- Smaller organizations may have limitations in managing careers and offering job advancement, making recruiting and retaining talent harder.

Outsourcing options
Larger organizations may have certain reasons to maintain their in-house audit team. On the other hand, smaller organizations can easily address difficulties by working with outsourcing partners.

Many organizations believe that outsourcing internal audit is prohibitively expensive. Typically, this conclusion is based on the analysis of comparing hourly outsourcing costs with the salary costs and associated benefits of an in-house audit team divided by the total annual audit hours.

While this calculation typically yields a lower per hour cost comparing with in-house audit resources, it does not account for productivity, technical skills, the impact of turnover and the value that can be derived from better risk mitigation through deployment of best practices from other organizations. Downtime, training, daily departmental administration and other non-audit activities are usually not considered.

In fact, we have seen more organizations beginning to swap from the full in-house model to either a full outsourcing or co-sourcing model, not only due to their recognition of the needs to transform their internal audit function to keep pace with their business growth but also due to their frustration over the inability to find and retain required skill sets to cover the companies’ most significant risks. By doing this, management can focus on their core competencies instead of managing this “additional” function.

In addition to considering the monetary cost differential of maintaining the function, companies that are planning to develop their internal audit functions should consider the key benefits of outsourcing summarized below:

- **Access to a diverse bench of audit expertise** - A company can have immediate access to the necessary industry, functional, system or technical expertise.
- **Vision for improving practices** - An audit team engaged with experiences in multiple companies can provide insights into the best practices of the industry.
- **Conversion of a traditional fixed cost activity to a variable cost activity** - A company does not need to deal with the stress faced by downsizing or upsizing. The company can have access to skilled resources on an “as-needed” basis.
- **Increased objectivity** - An outsourced internal audit activity is less prone to bias and organizational politics. The function will be able to provide more candid views on the organization's risk exposures, control processes and systems.
- **Greater confidence in boardroom** - Independent personnel, together with appropriate level of experience (including senior audit executives) as well as audit expertise, will gain better confidence of the audit committee.
- **Higher audit productivity** - Though the hourly cost may be higher, a company only pays for the internal audit work done. Cost of recruiting, training, annual leaves and other career development supporting activities are costs of the service provider.
- **Elimination of personnel issues** - There is no need for the company to deal with personnel issues such as staff turnover, career management and counselling. Management can have more time to focus on its core competencies, not internal audit.
- **A quick start up of an internal audit function** - Recruiting the right resources and setting up the necessary internal audit infrastructure in order that the internal audit can properly function can be time and resource consuming.

Since the recommended best practice regarding internal audit function has been amended to a code provision, the majority of Hong Kong listed companies which currently do not have such a function are likely to seriously consider establishing one in lieu of disclosing the rationale for not having one. Making use of the data contained in the consultation paper, the number of companies facing this decision could be more than 700.

We recommend these companies should not only consider the cost of maintaining an effective internal audit function, but also its organizational structure, complexity and diversity of business operations, and stakeholders’ expectations. Smaller organizations should consider the limitations of small audit teams, the benefits of outsourcing and decide on which option, is most suitable to their circumstances.

Albert Lee is Managing Director and Vincent Leung is Senior Director at Protiviti.
Technical update

New and revised Auditor Reporting Standards

The auditor’s report is the key tangible deliverable of the audit process. While users of the financial statements have signaled that the auditor’s opinion on the financial statements is valued, many have called for the auditor’s report to be more informative and relevant.

In January, the International Auditing and Assurance Standards Board issued the following new and revised Auditor Reporting Standards (including conforming amendments to various International Standards on Auditing), which will significantly enhance the usefulness of auditor’s reports for investors and other users of financial statements:

- ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements
- New ISA 701 Communicating Key Audit Matters in the Independent Auditor’s Report
- ISA 570 (Revised) Going Concern
- ISA 705 (Revised) Modifications to the Opinion in the Independent Auditor’s Report
- ISA 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report
- ISA 260 (Revised) Communication with Those Charged with Governance
- Conforming amendments to ISAs 210, 220, 230, 510, 540, 580, 600 and 710

The key changes in and expected benefits of the new and revised Auditor Reporting Standards are highlighted in the following:

Key enhancements to the auditor’s report

The following enhancements are mandatory for audits of financial statements of listed entities, while they can be applied on a voluntary basis for any other entities:

- A new section to communicate key audit matters. Such matters are those that, in the auditor’s judgment, were of most significance in the audit of the current-period financial statements.
- The name of the engagement partner is required to be disclosed, with a “harm’s way” exemption.

The following new requirements are also introduced with respect to the auditor’s report for all audits of financial statements:

- The opinion section is required to be presented first, followed by the basis for opinion section (unless law or regulation prescribe otherwise).
- Auditor reporting on going concern will require:
  - A description of the respective responsibilities of management and the auditor in respect of going concern;
  - When a material uncertainty exists, and is adequately disclosed in the financial statements, the auditor’s report must include a separate section titled “Material Uncertainty Related to Going Concern”; and
  - A new requirement to challenge the adequacy of disclosures for “close calls” in respect of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt on an entity’s ability to continue as a going concern.

- An affirmative statement is required about the auditor’s independence and fulfilment of relevant ethical responsibilities, with disclosure of the jurisdiction of origin of those requirements or reference to the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants.
- An enhanced description of the responsibilities of the auditor and key features of an audit. There is a provision that certain components of this description may be presented in an appendix to the auditor’s report or, where law, regulation or national auditing standards expressly permit, by reference in the auditor’s report to a website of an appropriate authority.

Key audit matters

As mentioned previously, one of the major enhancements is the introduction of key audit matters. The purpose of communicating key audit matters is to improve the communicative value of the auditor’s report by providing greater transparency about the audit that was performed. Key audit matters provide intended users of the financial statements with additional information about matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. The communication of key audit matters may also provide intended users with a basis to further engage with management and those charged with governance.

The IAASB acknowledged the importance of achieving an appropriate balance between the need of prescription in the standard to promote consistency in which matters are determined and communicated as key audit matters, with the need to allow for auditor judgment to ensure that the key audit matters communicated in the auditor’s report are as entity-specific and relevant as possible. Accordingly, ISA 701 sets out a decision framework for auditors using communications with those charged with governance as a starting point. From the matters communicated with those charged with governance, the auditor determines the matters that required significant auditor attention. In fulfilling this requirement, the auditor is always required to explicitly consider:

- Areas of higher assessed risks of material changes.

Locally, the Institute plans to organize forums for members and key stakeholders to help explain the key changes.
misstatement, or significant risks identified in accordance with ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment;

- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty; and
- The effect on the audit of significant events or transactions that occurred during the year.

From the matters that required significant auditor attention, the auditor determines which were of the most significance in the audit of the financial statements of the current period and therefore are key audit matters.

If the key audit matters reporting requirements result in the auditor communicating information, which has not been publicly disclosed by the entity, ISA 701 allows for the possibility, in extremely rare circumstances, that the auditor might decide not to communicate a matter determined to be a key audit matter because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. The description of a key audit matter is always required to include:

- Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter;
- How the matter was addressed in the audit; and
- Reference to the related disclosure(s).

The auditor may include in the description of a key audit matter:

- Aspects of the auditor’s response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement;
- A brief overview of procedures performed;
- An indication of the outcome of the auditor’s procedures; or
- Key observations with respect to the matter, or some combination of these elements.

Should the auditor determine that there are no key audit matters to communicate, the auditor’s report would still include a key audit matters section, but specifically highlight that there are no key audit matters. Emphasis of matter and other matter paragraphs in the auditor’s report cannot be used as a substitute for communicating a matter determined to be a key audit matter.

Effective date
The IAASB’s new and revised Auditor Reporting Standards are effective for audits of financial statements for periods ending on or after 15 December 2016. The Institute will adopt the IAASB’s Auditor Reporting Standards with the same effective date.

Benefits of changes
In addition to the increased transparency and enhanced informational value of the auditor’s report, changes to auditor reporting will also have the benefit of:

- Enhancing communications between the auditor and investors as well as between auditors and those charged with governance;
- Increasing attention paid by management and those charged with governance (e.g. the audit committee) to the disclosures in the financial statements to which reference is made in the auditor’s report; and
- Renewing the focus of the auditor on matters to be reported, which may indirectly increase professional scepticism.

Coming activities
To help raise awareness, understanding and effective implementation of the Auditor Reporting Standards, the IAASB has a dedicated website at www.ifac.org/auditing-assurance/new-auditors-report with useful information.

Locally, the Institute plans to organize forums for members and key stakeholders to help explain the key changes. Members will be kept informed of events.
Financial reporting

Institute comments on IASB exposure draft
The Institute commented on the International Accounting Standards Board’s exposure draft Classification and Measurement of Share-based Payment Transactions (proposed amendments to IFRS 2 Share-based Payment). The Institute is grateful for the IASB’s efforts to reduce diversity in practice and supported the amendments to IFRS 2 as proposed in the exposure draft. While the Institute agrees with prospective application of the amendments proposed in the exposure draft by having considered the efforts required for retrospective application, the Institute recommended that the IASB should provide guidance on how to apply the proposed amendments prospectively.

Small and medium practitioners

IFAC global SMP survey: 2014 results
The International Federation of Accountants released the key findings from its 2014 IFAC Global SMP Survey, which showed that keeping up with regulations and standards and attracting new clients were the two greatest challenges facing small and medium practitioners worldwide. Rising costs and economic uncertainty were the top two challenges facing small and medium enterprise clients. The full report of the survey results including a summary of overall insights and notable highlights by region and size of practice is available on its website.

Corporate finance

HKEx review of listed issuers’ annual reports to monitor rule compliance
Hong Kong Exchanges and Clearing published a report on the findings and recommendations from its annual review of listed issuers’ annual reports, for the financial years ended between December 2013 and November 2014, to monitor their compliance with the listing rules, corporate conduct and disclosure of material events and developments.

A majority of the areas reviewed were subjects of previous reviews. Improvement in the disclosures in annual reports and a reduction in cases involving possible material breaches of the listing rules were noted. The report also highlighted areas where issuers could continue to improve their disclosures.

Members, in particular directors and those responsible for preparing annual reports of listed issuers, are encouraged to take note of and act on the observations and recommendations discussed in the report and follow the relevant guidance.

Legislation and other initiatives

Anti-money laundering bulletin (revised)
A revised version of Anti-Money Laundering Bulletin 1 Requirements on anti-money laundering, anti-terrorist financing and related matters has been posted on the Institute’s website. The bulletin draws members’ attention to Hong Kong legislation and international developments on anti-money laundering and counter-terrorist financing. It sets out recommended good practices and other information, which may assist members to fulfil their ethical and legal obligations in relation to AML/CTF and to avoid inadvertent involvement in such activities. However,
it is not intended to provide legal advice to members and, in case of doubt, members should consider seeking legal advice.

Replacing the original edition of July 2006, the latest version highlights the importance of suspicious transaction reporting, as well as conducting effective customer due diligence and record keeping, in line with international standards; the information in the bulletin has been re-ordered and some of the more detailed information has been moved to an appendix; a contents page has been added, links to websites and documents have been updated and some key links have been incorporated into the main text.

While the bulletin is aimed primarily at members in practice, it may also be informative and useful for members in business.

**Anti-money laundering notices**

Members may wish to note the following notices and publications:

- The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Amendment of schedule 2) notice 2015 came into operation on 1 April, allowing financial institutions to continue relying on certain specified intermediaries to carry out customer due diligence measures until 31 March 2018;
- Government notice 1838: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance;
- Government notice 1839: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Eritrea) Regulation;
- Government notice 1840: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Somalia) Regulation;
- Government notice 2455: An updated list of terrorists and terrorist associates has been specified under the United Nations Sanctions (Iraq) Regulation;
- Government notice 2594: An updated list of terrorists and terrorist associates has been specified under the United Nations Sanctions (Somalia) Regulation;
- Government notice 2595: A list of relevant persons and entities has been specified under the United Nations Sanctions (Liberia) Regulation 2015;

- Legal notices 69 and 70: The United Nations Sanctions (Liberia) Regulation 2015 and the United Nations Sanctions (Liberia) Regulation 2014 (Repeal) Regulation were made under the United Nations Sanctions Ordinance;
- The Financial Action Task Force has issued the following notices:
  - FATF public statement, identifying jurisdictions with strategic AML/CFT deficiencies that pose risk to the international financial system.
  - Improving global AML/CFT compliance, identifying jurisdictions with strategic AML/CFT deficiencies for which an action plan has been developed with FATF.
  - FATF report on the financing of the terrorist organization Islamic State in Iraq and the Levant, analysing how the terror group generates and uses funding; and
- United States executive order 13224: The list relating to “Blocking property and prohibiting transactions with persons who commit, threaten to commit or support terrorism.”
People on the move
The latest professional appointments from around the region

KPMG

Kent Xu
Partner
Xu has more than 18 years experience in credit risk, enterprise risk management, capital management and Internet finance. He was previously managing director and risk management head at Accenture.

Victor Huang
Partner
Huang has more than 23 years experience in audit and transaction services, and has been involved in high profile transactions in both Hong Kong and the Mainland. Prior to joining KPMG, he was a partner at PricewaterhouseCoopers Hong Kong.

Jie Xu
Tax Partner
Xu has more than 15 years experience providing China tax services to Japanese clients. Prior to joining KPMG, she was a director at Deloitte in China.

Josephine Jiang
Tax Partner
Jiang has more than 15 years experience in tax consulting work in China and the United States. Prior to joining KPMG, she was a director at Deloitte in Beijing.

Sebastian Leotta
Director
Leotta has more than 20 years experience of financial services spanning across private equity, capital markets such as international bond, syndicated finance, project and export finance. He joined KPMG from the Hanhong private equity fund where he was chief financial officer and chief operating officer.

Rani Kamaruddin
Director
Kamaruddin has 15 years of experience in financial services including as an external legal adviser, in-house compliance officer in sales and trading and anti-money laundering. She also has experience looking after legal, regulatory and documentation risks.

Lu Chen
Director
Chen has nine years of experience in economic and tax advisory including advance pricing advisory, transfer pricing planning, documentation and dispute resolution. She has previously worked in economic consultancies and international accounting firms.

Email your announcements to Jasmine Hu at jasmine.hu@mandl.asia
Events
Your guide to courses, workshops and member activities

Accounting and financial reporting

Workshop on a successful listing in Hong Kong (Part 2) addresses practical issues for Hong Kong listings. Session 1 covers the preparation of accountants’ reports, session 2 includes reporting on profit forecasts and statements of sufficiency of working capital, while session 3 examines the preparation of other financial information.
CPD hours: 4 (per session)
Language: Cantonese
Dates: 30 May, 13 June and 27 June
Times: 9:00 a.m. – 1:00 p.m. (session 1 & 2)
9:30 a.m. – 1:30 p.m. (session 3)

Auditing and assurance

Environmental, social and governance series contains two sessions for participants interested in raising their awareness and acquiring knowledge about the issues relating to sustainability reporting and ESG performance, the reporting requirements and benefits of ESG management.
CPD hours: 2 (per session)
Language: English
Dates: 21 May and 11 June
Time: 6:30 – 8:30 p.m.

Audit Practice Manual application workshop will introduce the Institute’s Audit Practice Manual, which addresses the requirements of Clarified Hong Kong Standards on Auditing and how they affect audit engagements of non-listed entities.
CPD hours: 7
Language: Cantonese
Date: 22 May
Time: 9:00 a.m. – 5:00 p.m.

Industry knowledge

Retail landscape and shopping centre development in Hong Kong will provide an update of the retail market and discuss the latest developments relating to shopping malls in Hong Kong.
CPD hours: 1.5
Language: English
Date: 28 May
Time: 6:30 – 8:00 p.m.

Management, leadership and soft skills

360° goal setting, part of the 360° leadership skills series, will teach you how to achieve organizational objectives by empowering your team with proper work conditions and goal setting.
CPD hours: 3.5
Language: Cantonese
Date: 23 May
Time: 9:30 a.m. – 1:00 p.m.

Corporate governance

COSO series will help CPAs learn more about the newly updated version of the COSO framework and how it is applied to internal control systems. Session 1 looks at what’s new and its impact, while session 2 addresses putting the new COSO framework into practice.
CPD hours: 2 (session 1), 3 (session 2)
Language: English
Dates: 18 and 29 May
Times: 6:30 – 8:30 p.m. (session 1)
6:30 – 9:30 p.m. (session 2)

Visit the Institute’s website for other programmes and to enrol and pay online: www.hkicpa.org.hk
The Chicago-born architect Walter Burley Griffin had never set foot in Australia when he submitted his plans for the nation’s capital. He won the design contest in 1912, but resigned embittered in 1920 when his plans were much altered, partly due to the constraints imposed by World War I.

Like Griffin’s own capital, Washington D.C., Canberra has a double role: as the centre of the country’s political, diplomatic and bureaucratic life, and as a normal working city. For decades it excelled at the former pursuit but was sadly lacking at the latter. Today, however, it has a vibrant cultural environment.

Canberra can feel half-empty when Parliament is not sitting, especially given its sprawling expanse and, although home to more than 350,000 people, it sometimes feels like a small country town. Indeed, the capital was selected in pastoral country between Melbourne and Sydney and some of its rural heritage survives today, such as the picturesque 1860s village of Tharwa.

Yet with deeper exploration, a more complex side can be easily revealed. The city’s centrepiece is Lake Burley Griffin, named in honour of its designer in 1964 (the Australian government thought “Burley” was part of his surname). The lake – created by damming the Molonglo River – features the Captain Cook Memorial Jet fountain and is a hub for outdoor pursuits, with bicycles as well as kayaks, canoes and paddleboats available for hire.

Springbank Island is a popular picnic location. On the north shore is Canberra’s city proper, known as Civic, along with nearby districts such as Acton, Braddon, Campbell, Dickson and O’Connor. Across the Commonwealth Avenue Bridge to the south shore is Capital Hill, site of Parliament House. Nearby districts include Parkes, home to many other public buildings, as well as Barton, Forrest, Griffith, Kingston, Manuka and Yarralumla.

As capital, Canberra boasts a number of significant national monuments, such as the Australian War Memorial (featuring Afghanistan: The Australian Story until November), the National Museum of Australia and National Portrait Gallery. The cultural flagship is the National Gallery of Australia. Until 30 August, the NGA hosts its first exhibition dedicated to hand-coloured photographs.

Although it became capital only in 1927 – and much emphasis has been placed on recent construction, such as the modernist

Contemporary Canberra

Australia’s capital, once something of a cultural backwater, has become a must-visit southern hemisphere destination, Institute member and Travelzoo Asia-Pacific CFO Honnus Cheung discovers
Parliament House (opened in 1988) and the brutalist NGA (1982) – Canberra has a wealth of pre-war architecture, such as the 1927 Old Parliament House (now the Museum of Australian Democracy), the 1915 Kingston Powerhouse (now Canberra Glassworks) and the 1913 Old Canberra House.

Griffin envisaged Canberra as a “garden city” and succeeded beautifully. While a car is necessary to properly encompass the city’s 800 square kilometres, there are several nearby locations ideal for exploration by two wheels. To the southwest is Mount Stromlo with its world championship mountain bike course.

For those who prefer to walk, Canberra has many marked tracks through parks throughout the city and surrounds. The Centenary Trail is a 145-kilometre loop for walkers and cyclists that includes urban and rural environments.

Canberra offers diverse shopping opportunities. The city’s retail hub is the Canberra Centre with more than 300 outlets, including international names such as Apple, Hugo Boss and Zara as well as Australian brands like sass & bide, Bardot, Country Road, Sportscraft and Oroton.

For a funkier look, try the boutiques and street stalls in nearby City Walk and Garema Place or the 1920s Art Deco shopping centres in Manuka and Kingston. Lonsdale Street in Braddon is considered Canberra’s trendiest thoroughfare, with an eclectic mix of boutiques and pop-up stores as well as bakeries, cafés, restaurants and salons.

Though far from the café culture of Melbourne, Canberra is developing its own inland style with casual eaters, boutique breweries and wine bars. Canberra enjoys more hours of sunshine annually than Sydney, and with hot summers, balmy autumns, crisp winters and warm springs, Canberra has become a city for all seasons.

Where to eat
- Aubergine Modern Australian, with respect for local produce. 18 Barker Street, Griffith. 6260-8666.
- Eightysix Highly popular upscale bistro. 11 Elouera Street, Braddon. 6161-8686.
- Sage Dining Rooms Contemporary cuisine in tranquil garden. Batman Street, Braddon. 6249-6050.
- Tu Do Consistent, authentic Vietnamese food. 27 Sargood Street, O’Connor. 6248-6030.
- Water’s Edge Celebrated lakeside dining room. 40 Parkes Place, Parkes. 6273-5066.

Where to stay
- The Brassey of Canberra Grand dame of the capital’s hotels. Belmore Gardens and Macquarie Street, Barton. 6273-3766.
- East Hotel Contemporary experience. 69 Canberra Avenue, Kingston. 6295-6925.
- Hotel Hotel Trendy boutique and meeting place. 25 Edinburgh Avenue, New Acton. 6287-6287.
- Hotel Kurrajong Old world charm brilliantly updated. 8 National Circuit, Barton. 6234-4444.
- Hyatt Hotel Canberra Centrally located international digs. 120 Commonwealth Avenue, Yarralumla. 6270-1234.

What to see
- Australian War Memorial Marking 100 years since Gallipoli. Treloar Crescent, Campbell. 6243-4211.
Local lubrication

China is a rising wine producer but no longer the only one in Asia, notes George W. Russell

China was the world’s seventh-largest wine producer, according to the Organization Internationale de la Vigne et du Vin. But despite a production jump of 43.92 percent between 2009 and 2012, its total output of 12 million hectolitres is less than Australia’s and barely a quarter that of France.

Excluding Australia and New Zealand, China has long been the only significant producer of wine in Asia. Yet climatic change, innovative technologies and determined pioneers have seen a number of vineyards emerge elsewhere in the continent.

Most producers make tiny quantities and often use imported grapes. Still, they may well be blazing a trail for consumers who wish to buy local. China’s area of planted vineyards is expected to rise from the current 600,000 hectares to surpass the 900,000 hectares now planted in Spain, and it could establish itself as a significant grape exporter to the region.

Small crops of wine grapes have been grown in Japan since the 19th century, but several Southeast Asian nations joined the ranks of winemaking countries in recent years. Even Hong Kong has a winery of sorts: The 8th Estate Winery imports flash-frozen grapes from France, the United States and Australia and makes its own range of Shiraz, Cabernet Sauvignon and Merlot blends.

The Indonesian island of Bali is a pioneer in the region. Hatten Wines began selling a rosé from locally grown grapes in 1994. Today its reds and whites are widely available in leading resorts and high-end restaurants.

A locally grape variety, Probolinggo Biru, based on the Trollinger grape found in Germany, is used in Tunjung Brut Sparkling, which received a recommendation in the International Wine & Spirit Competition 2012.

Cambodia has also joined the fray. Leng Chan Thol and her husband Chan Thay Chhoueng grew oranges on their farm near the city of Battambang, but in 1999 they decided to devote part of their land to wine grapes. The first vintage was released in 2004.

The grapes grown and harvested at the Prasat Phnom Banan Vineyard are mainly Shiraz, Cabernet Sauvignon and Merlot imported from France, the U.S. and Australia. Crushed by hand in plastic buckets, the wine is fermented in modern stainless steel vats.

With a powerful bouquet, strong fruity overtones, and a sweet finish with hints of rubber and diesel, the most popular vintage, the Prasat Phnom Banan Shiraz-Merlot 2005, is best served chilled and has more novelty value than serious aspirations.

Another Bali enterprise, Artisan Estate, uses grapes shipped from Western Australia in the form of juice. Its Chardonnay and Sauvignon Blanc stock comes from Pemberton and Shiraz from the Swan Valley and Margaret River. Cape Discovery Wines in Singaraja also use imported grapes from Western Australia.

Sababay Wine, however, grows its own Alphonse Lavallée grapes in northern Bali. A cross between a Trollinger and Kharistvala Kolkhuri, an obscure Georgian grape, the Alphonse Lavallée thrives in the tropical climate under the care of winemaker Vincent Desplat, who came to Bali from Château Clarke in the Listrac-Médoc owned by Benjamin de Rothschild.

The latest entrant is Thailand, where Hua Hin Hills Vineyard, built on a former elephant corral, has been making wine since 2011. The winery produces two ranges, Monsoon Valley and New Latitude, from locally grown Chenin Blanc, Colombard, Muscat, Sangiovese, Shiraz and Tempranillo grapes.

Monsoon Valley is one of the few Southeast Asian wines available in Hong Kong. Distributor Links Concept Company decided to take advantage of the wave of popularity for Thai cuisine by introducing a complementary wine. “Since so many Thai restaurants have opened recently, we think it’s a good opportunity to introduce Thai wine and promote it with Thai food,” says Jane Tsang, the company’s Marketing Supervisor.

Not all Southeast Asian winemaking ventures have come to fruition. A plan to source grapes from vineyards in the Vietnamese highlands was abandoned by a development company. Sealinks City built its imposing Red Wine Castle in Phan Thiet, Vietnam, a beach area near Ho Chi Minh City. However, the company decided to source its grapes from the Napa Valley in California. “We do not plant our own grapes here for our products,” Managing Director Phan Thi Thanh Xuan tells A Plus.
Marching in time

Wendy Hu notes that a flurry of military anniversaries has inspired many watchmakers

The past 12 months or so have been a momentous time to be an armchair general. Last year marked the centenary of the beginning of World War I, and related commemorations have continued into 2015, such as the 100th anniversary of the Anzac landings in Turkey. This year also marks 200 years since the end of the Napoleonic Wars, and 600 years since the Battle of Agincourt extolled in Shakespeare’s Henry V.

For Asia-Pacific battle fans, it’s the 40th anniversary year of the end of the Vietnam War, and for the real enthusiasts of martial trivia, 400 years have passed since the Siege of Osaka sealed the ascendency of the Tokugawa shogunate and turned Japan into a mediaeval hermit state for the next 250 years.

These anniversaries have helped to fuel interest in so-called military style watches. It was the difficulty in pulling a fob watch out of a pocket in the heat of modern battle that supposedly inspired the wristwatch during the Second Boer War of 1899-1902 in South Africa.

The focus of 2015 will be World War II, which ended 70 years ago this month. Within that conflict, the United Kingdom marks the 75th anniversary of the Battle of Britain, fought mostly in the skies. IWC Schaffhausen – which, ironically, supplied watches to Nazi Germany’s Luftwaffe – recently brought to Hong Kong a watch commemorating the Supermarine Spitfire fighter that anchored Britain’s air defence.

The IWC Spitfire Perpetual Calendar Digital Date-Month is available in an 18-karat red gold case and a stainless steel case. The 46mm watch features a mechanical chronograph IWC Calibre 89801 movement, stopwatch function and a totalizer and bears a resemblance to a World War II-era instrument panel and the sapphire-glass back showcases a rotor in the shape of a Spitfire silhouette.

This year saw the return to the market of the Benrus brand of military watches – standard issue to American serviceman in Vietnam – after an absence of more than two decades. Giovanni Feroce, a former U.S. Army officer, last year acquired the licences and trademarks for Benrus, which was founded in 1921 and went bankrupt 70 years later.

Even watches with no connection to military heritage have picked up some of technology: not just luminous digits and instrument-panel dials, but also “NATO straps,” multi-coloured loop-through watchstraps that hold even when frayed or torn, are ubiquitous.

Jaeger-LeCoultre was inspired by military design to create a special watch to commemorate 1958, the International Geophysical Year, which was marked by a programme of major scientific explorations around the world conducted by 67 nations.

Last year, the watchmaker reissued its Geophysic 1958 and the piece is now available in Hong Kong. This 38.5mm watch – larger than the original due to contemporary preferences but otherwise true to the 1958 design – has been re-created in pink gold and platinum as well as stainless steel with its armed forces heritage rooted in its Jaeger-LeCoultre Calibre 898/1 movement, a direct descendant of the World War II-era Calibre 478WSbr.

The high-tech Spyr gears offer smooth transmission of torque in the gear train, while the automatic winding with ceramic ball bearings require no lubrication, and the soft-iron inner case protects the mechanism from the effects of magnetism.

Officine Panerai has also joined the military nostalgia bandwagon. Its Radiomir Platinum Tourbillon GMT is based on an earlier watch designed for the Italian armed forces 70 years ago, again with a larger diameter. The Calibre P.2005 movement is fitted with a tourbillon. It also comes with power reserve indication and second time zone.

Finally, London-based customization specialist Project X honours British special forces with its Stealth range, modelled on the classic Rolex Submariner 114060. The 40mm watch is finished in a bead blast case, diamond-like carbon coating, skeleton hands and enamelled bezel engravings.

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Even watches with no connection to military heritage have picked up some of technology: not just luminous digits and instrument-panel dials, but also “NATO straps,” multi-coloured loop-through watchstraps that hold even when frayed or torn, are ubiquitous.

Jaeger-LeCoultre was inspired by military design to create a special watch to commemorate 1958, the International Geophysical Year, which was marked by a programme of major scientific explorations around the world conducted by 67 nations.

Last year, the watchmaker reissued its Geophysic 1958 and the piece is now available in Hong Kong. This 38.5mm watch – larger than the original due to contemporary preferences but otherwise true to the 1958 design – has been re-created in pink gold and platinum as well as stainless steel with its armed forces heritage rooted in its Jaeger-LeCoultre Calibre 898/1 movement, a direct descendant of the World War II-era Calibre 478WSbr.

The high-tech Spyr gears offer smooth transmission of torque in the gear train, while the automatic winding with ceramic ball bearings require no lubrication, and the soft-iron inner case protects the mechanism from the effects of magnetism.

Officine Panerai has also joined the military nostalgia bandwagon. Its Radiomir Platinum Tourbillon GMT is based on an earlier watch designed for the Italian armed forces 70 years ago, again with a larger diameter. The Calibre P.2005 movement is fitted with a tourbillon. It also comes with power reserve indication and second time zone.

Finally, London-based customization specialist Project X honours British special forces with its Stealth range, modelled on the classic Rolex Submariner 114060. The 40mm watch is finished in a bead blast case, diamond-like carbon coating, skeleton hands and enamelled bezel engravings.

The timepiece, which features an engraved variation of the unofficial frog, paddle and parachute insignia of the Special Boat Squadron, and its motto “By Strength and Guile,” is, of course, mounted on a replica of a North Atlantic Treaty Organization military-issue G10 strap.
The numbers game

For guys, it’s size that matters when it comes to digits, says Nury Vittachi

It seems I’ve been doing my new calorie counting app wrong! I got a new high score every day for a week. Then my wife tells me that the aim is to get low scores. “So how do you win?” I asked her. She said: “You don’t. People just do it for a few months and then give up.”

What’s the point? Arrgghh! Whoever designed this app knows nothing about the male brain. We like numbers and we like them big. If you ask a man whether he would rather be killed with a single bullet or a volley of a thousand bullets, he’ll go for the machine gun. It’s something to do with the Y chromosome.

Now there was a thing on the TV news the other day where a guy said that Apple might become the first company to be worth US$1 trillion. My male investment banker friends could hardly breathe. Even the Samsung fanboys in my social group want this to happen: a love of big numbers is in the male DNA.

Why is this not taken into account in accounting training? “Now, students, we’ll start with some mental arithmetic. Please calculate 25 x 43 x 19. The male students can calculate 25 billion x 43 billion x 19 billion as this will get them more interested.”

I wrote to someone in the English department of a university to discuss this. She told me that although there have been many famous female mathematicians, the people who invent big numbers seem to be male. The word “million” was dreamed up by some Frenchman in 1270 and then copied by Englishmen by 1370. So if you want to be suitably pretentious, you should really say “million” with a French accent, like this: “Un mee-lee-ohnh.”

But the world was young in those days, and nobody actually had a million of anything. So they needed smaller numbers. By 1555, English speakers were counting things in myriads, or units of 10,000. So why are English-monolinguals in Hong Kong incapable of comprehending the Cantonese maaan (unit of 10,000) when they counted the same way just half a millennium ago?

By 1670, English speakers had invented the word “milliard” to mean “billion”, but the word was eventually abandoned. It was too easy to confuse “milliard” and “million”, and it would be awful to think you’d married a milliardaire only to find he or she was a mere millionaire.

Asia also lost some old numbers. In ancient Buddhist texts, there was a number called “number of grains of sand in the Ganges” or heng he sha, which was 10 to the power of 52. (This suggests that someone actually counted them. Those guys must have been so patient.)

At the time of writing this, the Chinese stock market’s daily turnover is one trillion yuan. Amazing. Almost exactly 25 years ago, when I was a young reporter, the Chinese stock market turnover was zero. On one particular day in 1990, not one share was bought, sold or swapped. Luckily, reporters (like financial analysts) can spout financial verbiage for hours. “Turnover was on the light side, holding steady at zero yuan for the first hour and the second hour and the third hour before excitement was triggered as rumours mounted that it might move in the fourth hour, although this turned out to be a false lead as the sidelines were hogged by the main players and indeed the minor players and even Mrs Chan who pops in from the cha chaan teng next to the stock exchange…”

One day we should revive the old terminology. “The stock market reached a new high of heng he sha today, exactly matching the number of sand-grains in the river Ganges.”

Nury Vittachi is a bestselling author, columnist, lecturer and TV host. He wrote three storybooks for the Institute, May Moon and the Secrets of the CPA, May Moon Rescues the World Economy and May Moon’s Book of Choices.