DRIVING BUSINESS SUCCESS
Issue 7 Volume 18 July 2022

PLUS:

MERGERS AND ACQUISITIONS
With the surge in M&A activity in Hong Kong, accountants have a key role to play

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Founder and Chief Executive Officer of Wonder Capital Group

HOW TO
How CPAs can lead the way on sustainability

WEB OF DECEIT

With cryptocurrency rising in popularity, how are cybercriminals exploiting it to launder money and what steps can businesses take to identify suspicious transactions?

CPA
Hong Kong Institute of
Certified Public Accountants
香港會計師公會

"Initiatives by corporations to become more sustainable and socially responsible has become all the more essential in getting us back on track. This month, the Institute was more than glad to announce the launch of the Best Corporate Governance and ESG Awards 2022."

Dear members,

The month of July has been met with sweltering temperatures around the globe. Mercury hit record highs in the United Kingdom, while persistent heatwaves have affected parts of Europe. Closer to home, Hong Kong recorded its hottest July ever, including the city's hottest July day in 138 years.

Experts have linked these extreme temperatures with climate change and warn that more records will be smashed as extreme temperatures become a more frequent occurrence. It has become increasingly apparent that the well-being and sustainable development of the entire world is at stake.

Indeed, with this in mind, initiatives by corporations to become more sustainable and socially responsible has become all the more essential in getting us back on track. This month, the Institute was more than glad to announce the launch of the Best Corporate Governance and ESG Awards 2022. With the environmental, social and governance (ESG) elements enhanced since last year's edition, the awards recognize private and public sector companies that have achieved high standards of corporate governance (CG) and ESG and are taking steps to integrate the oversight and implementation of both CG and ESG within their strategy and operations.

It is important we identify role models that set good examples for other companies and organizations to follow, and work towards multiplying their efforts through inspiring others to follow suit. I encourage organizations to find out more about the awards and take part. Applications are now open for listed companies and public sector or not-for-profit organizations until 10 August. Don't miss out.

Speaking of securing a sustainable future, I was pleased to deliver the keynote speech during the Inauguration Ceremony of the Guangdong-Hong Kong-Macau Young High-end CPA Talent Training Programme held at the Institute on 21 July. Co-organized by the Institute, Guangdong Institute of Certified Public Accountants, Hong Kong Association of Registered Public Interest Entity Auditors Limited and the Union of Associations of Professional Accountants of Macau, the programme provides an important platform to produce high-calibre CPA talent who will become leaders equipped to drive the sustainable development of the Greater Bay Area. I was glad to see Christopher Hui, Secretary for Financial Services and the Treasury and Li Xuhong, Deputy Director General of the Department of Administration and Finance for the Liaison Office of the Central People's Government in the HKSAR, as well as many of our esteemed colleagues attend to witness the beginning of this wonderful endeavour.

In July, we also saw the formal passage of the Professional Accountants (Amendment) Bill 2022, which seeks to enhance the election arrangements of the Institute's Council. As a result of the amendment, which takes effect on 1 November 2022, the term of office of the 14 incumbent elected members of the Council will all be completed by the end of 2023. This means the Institute will not be holding an election during the annual general meeting at the end of the year. With the further reform of the regulatory regime of the accounting profession coming into effect this coming October, this will allow the Institute to focus our resources for the implementation of the new regime and prepare for the elections in 2023. Personally, it is certainly a privilege to serve for an additional year beyond my original term.

I would like to take this opportunity to welcome the latest addition to the Institute's Council. Subsequent to Professor Nelson Lam FCPA (practising)'s resignation from the Council to take up his role as Director of Audit, the arising vacancy has been filled by the Council through the appointment of Frank Lam FCPA (practising) with effect from 20 July 2022. I look forward to working together with Frank and the rest of the Council to serve our members to the best of our efforts for the rest of our terms.

Loretta Fong CPA (practising)
President

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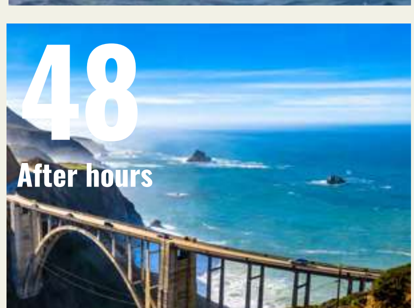

DRIVING BUSINESS SUCCESS

About our name
A Plus stands for Accounting Plus. It represents a profession that is rich in career options, stays relevant amid rapid changes, and adds value to business. This magazine strives to present the global mindset and varied expertise of Institute members – Accountants Plus.

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NEWS

Institute news Business news

Best Corporate Governance and ESG Awards 2022 invites entries

The Institute's prestigious Best Corporate Governance and ESG Awards 2022 are now open for entries until 10 August. Listed companies and public sector or not-for-profit organizations that have achieved high standards in corporate governance (CG) and environmental, social and governance (ESG) are invited to submit their applications.

The awards reflect the importance of both good CG and ESG reporting and practices for organizations, and their investors and stakeholders. "We aim to identify role models in the private and public sectors that set good examples for other companies and organizations to follow. They should be taking significant steps towards integrating CG and ESG considerations into their strategy, oversight and the implementation of their policies, procedures and controls. We will also recognize those entities that continue to uplift the standard of their disclosures and practices in at least one of these areas," said Loretta Fong CPA (practising), President of the Institute and Chairman of Judging Panel of the Best Corporate Governance and ESG Awards 2022.

The top accolades in the awards are the Most Sustainable Companies or Organizations Awards, which will be presented to companies and organizations that demonstrate the overall best practices in both CG and ESG, and are integrating these two key aspects into their business model. There will continue to be separate awards to recognize entities that have performed well in either CG or ESG, while not yet achieving an equal standard in both areas.

For financial years beginning after 1 January 2022, under the revised Corporate Governance Code, the boards of listed companies should establish the company's purpose, values and strategy, and ensure that these and the company's culture are aligned. Fong noted that while these provisions were not yet in effect during the reporting year covered by the awards, having the right culture and values in place is an essential part of having award-winning CG and ESG.

Last year, the awards were revamped and renamed the Best Corporate Governance and ESG Awards. More details on the awards and entry procedure are available on the Institute's website.

New council member appointed to fill vacancy

Subsequent to Professor Nelson Lam FCPA (practising)'s tendered resignation as elected Council member in June, the arising vacancy has been filled by the Council through the appointment of Frank Lam FCPA (practising) with effect from 20 July 2022.

Inauguration ceremony of CPA talent training programme

The inauguration ceremony of the Guangdong-Hong Kong-Macau Young High-end CPA Talent Training Programme was successfully held on 21 July at the Institute. Numerous local leaders from the accounting profession attended the ceremony, which was co-organized by the Institute, Guangdong Institute of Certified Public Accountants, Hong Kong Association of Registered Public Interest Entity Auditors Limited and the Union of Associations of Professional Accountants of Macau. The newly launched programme aims to train young CPAs across Guangdong, Hong Kong and Macau into future visionary leaders with strategic thinking and creative minds, equipped with comprehensive skills needed to support the sustainable development of the Greater Bay Area.

Application for CPD exemption

With the exception of practising certificate or specialist designation holders, members who are not carrying out any accounting or accounting-related work, and do not plan to do so for a significant period of time, and are not directors of any companies, may apply to the Institute for the continuing professional development (CPD) exemption. Visit the Institute's website for more details and other frequently asked questions on CPD requirements.

Council meetings minutes

The abridged minutes from the May and June Council meetings are now available in the "Members' area" of the Institute's website.

Resolutions by agreement

HLM CPA Limited, Yuen Suk Ching CPA and Ng Fai, Fiona CPA (practising)

Complaint: Failure or neglect by HLM CPA Limited and Yuen to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 220 *Quality Control for an Audit of Financial Statements*, HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, and HKSA 700 *Forming an Opinion and Reporting on Financial Statements*. Failure or neglect by Ng to observe, maintain or otherwise apply HKSA 220.

HLM CPA Limited audited the consolidated financial statements of China Investment Fund International Holdings Limited (currently known as China Investment Fund Company Limited), a Hong Kong listed company and its subsidiaries for the year ended 31 December 2016. It issued an unmodified opinion. Yuen was the engagement director and Ng was the engagement quality control reviewer.

The Hong Kong Institute of CPAs received a referral from the Financial Reporting Council (FRC) about deficiencies in the audit. They noted that the fair values of two available-for-sale investments included in the financial statements had declined significantly below their original costs. This was objective evidence of impairment of the investments, and would require an impairment loss to be recognized in accordance with Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement.* The company did not do so and instead inappropriately recognized the cumulative fair value decline in equity. The auditor failed to recognize the objective evidence of impairment of the investments and the inappropriate accounting treatment of their fair value decline in the financial statements.

The Institute concluded that HLM CPA Limited and Yuen failed to properly understand the applicable accounting framework, exercise professional judgement, seek appropriate consultation, and evaluate the accounting treatment and evidence on the available-for-sale investments, which was assessed as a high risk audit area. The Institute further concluded that Ng failed to perform an adequate engagement quality control review of the audit team's procedures and conclusion.

Regulatory action: In lieu of further proceedings, the Council concluded the following should resolve the complaint:
1. The respondents acknowledge the facts of the case and their non-compliance with professional standards;
2. The respondents be reprimanded; and
3. HLM CPA Limited, Yuen and Ng pay administrative penalties of HK$35,000 and HK$45,000 and HK$20,000 respectively to the Institute, and they jointly pay the costs of the Institute of HK$15,000 and of the FRC of HK$81,045.97.

Chan Kong Wang CPA (practising) and RSM Hong Kong

Complaint: Failure or neglect by Chan and RSM Hong Kong to observe, maintain or otherwise apply HKSA 330 *The Auditor's Responses to Assessed Risks*, HKSA 500 *Audit Evidence*, and HKSA 700 *Forming an Opinion and Reporting on Financial Statements*. Failure or neglect by Chan to observe, maintain or otherwise apply sections 100.5(c) and 130.1 of the *Code of Ethics for Professional Accountants* (Code of Ethics).

RSM Hong Kong audited the consolidated financial statements of Seamless Green China (Holdings) Limited, a Hong Kong listed company, and its subsidiaries for the year ended 31 December 2016. Chan was the engagement partner of the audit.

The Institute received a referral from the FRC about audit irregularities. They noted that the financial statements had been revised to correct material misstatements in the consolidated loss for the year and exchange reserve, which were caused by an accounting error in relation to a duplicated recognition of an impairment loss on a receivable which was fully impaired in 2014. The respondents failed to identify the misstatements.

FRC's investigation revealed that the respondents failed to design and perform appropriate audit procedures to obtain sufficient appropriate audit evidence pertaining to the receivable, the impairment loss on the receivable, and the exchange reserve. The respondents also drew an inappropriate conclusion that the financial statements as a whole were free from material misstatement. In addition, Chan failed to evaluate the appropriateness and accuracy of the consolidation adjustments pertaining to the receivable.

Regulatory action: In lieu of further proceedings, the Council concluded the following should resolve the complaint:
1. The respondents acknowledge the facts of the case and their non-compliance with professional standards;
2. The respondents be reprimanded; and
3. Chan and RSM Hong Kong pay administrative penalties of HK$35,000 and HK$50,000 respectively to the Institute, and they jointly pay the costs of the Institute of HK$15,000 and of the FRC of HK$133,772.07.

Chan Shek Chi CPA (practising), Tong Yat Hung CPA (practising) and Cheng & Cheng Limited

Complaint: Failure or neglect by Chan and Cheng & Cheng Limited to observe, maintain or otherwise apply HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 500 *Audit Evidence*, and HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. Failure or neglect by Tong to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. Failure or neglect by Chan and Tong to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics.

Cheng & Cheng Limited audited the consolidated financial statements of Asia Investment Finance Group Limited (currently known as Amber Hill Financial Holdings Limited), a Hong Kong listed company, and its subsidiaries (collectively, group) for the year ended 31 December 2018. Chan was the engagement director and Tong was the engagement quality control reviewer of the audit.

The Institute received a referral from the FRC about audit irregularities. The FRC's investigation revealed that the respondents failed to carry out sufficient audit procedures when they evaluated management's impairment assessment on the group's interest in an associate, which had been identified as one of the key audit matters in the auditor's report.

Regulatory action: In lieu of further proceedings, the Council concluded the following should resolve the complaint:
1. The respondents acknowledge the facts of the case and their non-compliance with professional standards;
2. The respondents be reprimanded; and
3. Chan, Tong, and Cheng & Cheng Limited pay administrative penalties of HK$35,000, HK$25,000, and HK$50,000 respectively to the Institute, and they jointly pay the costs of the Institute of HK$15,000 and of the FRC of HK$93,243.82.

Disciplinary findings

Wong Man Shan, Joyce CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of integrity under sections 100.5(a), 110.1 and 110.2 of the Code of Ethics, and being guilty of professional misconduct.

Wong is a non-practising director of Tandem (HK) CPA Limited (practice). The practice was selected for its first practice review in 2019. The reviewer found that Wong issued an accountant's report on a solicitor's firm under the Accountant's Report Rules (Cap. 159A) for the year ended 31 March 2018, although only limited compliance work had been done. Significant deficiencies were identified in 12 of the 15 required tests set out in the engagement programme. The multiple deficiencies in the test work and reckless issuance of the accountant's report demonstrated blatant disregard of the requirements of the statutory compliance reporting engagement, and amounted to professional misconduct.

Decisions and reasons: The Disciplinary Committee reprimanded Wong and ordered that no practising certificate be issued to her for 12 months from 4 July 2022. In addition, the committee ordered Wong to pay a penalty of HK$100,000 and costs of the disciplinary proceedings of HK$56,786. When making its decision, the committee took into consideration the relevant facts of the complaint, Wong's personal circumstances, her conduct throughout the proceedings and her admission of the complaint.

Yip Wai Wing CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principles of integrity in sections 100.5(a), 110.1 and 110.2 (later amended as section 110.1A1(a) and subsections R111.1-2 of Chapter A) and professional competence and due care in sections 100.5(c) and 130 (later amended as section 110.1A1(c) and subsection 113 of Chapter A) of the Code of Ethics, Hong Kong Standard on Quality Control (HKSQC) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, HKSA 500 *Audit Evidence* and HKSA 505 *External Confirmations*, and being guilty of professional misconduct.

Yip was the sole proprietor of Nic Yip & Co. In 2020, the Institute's practice review on the firm found that Yip reported false information in the self-assessment questionnaire, created working papers in reaction to the practice review, and issued audit reports in a large number of audit engagements in which he performed no or minimal audit work. In addition, the practice review found significant inadequacies in the firm's quality controls over human resources, engagement performance and compliance with ethical requirements. Furthermore, the reviewers found significant deficiencies in two audit engagements of the firm that were selected for review.

Decisions and reasons: The Disciplinary Committee ordered the name of Yip be removed from the register of certified public accountants for 12 months and his practising certificate be cancelled with effect from 4 July 2022. In addition, the committee reprimanded Yip and ordered him to pay a penalty of HK$200,000 and costs of the disciplinary proceedings of HK$53,737. When making its decision, the committee took into consideration the particulars in support of the complaints, Yip's admission of the complaint and his conduct throughout the proceedings.

Settlement

Cheung Wai Lun CPA (practising)

The Institute has settled regulatory proceedings concerning alleged non-compliance of its professional standard by Cheung Wai Lun CPA (practising).

Cheung's practice was selected for practice review in August 2020. Cheung, however, was unable to provide the requested information and documentation. The practice reviewer found that Cheung failed to establish and implement proper controls and procedures to maintain the safe custody, accessibility and retrievability of engagement documentation for a stipulated period of time.

As a result of the above, Cheung failed or neglected to observe, maintain or otherwise apply HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.*

Settlement agreement: The Council of the Institute has agreed with Cheung that:
1. Cheung acknowledges the facts of the case and area of non-compliance with a professional standard;
2. Cheung be reprimanded; and
3. Cheung pays a financial penalty of HK$80,000 and costs of HK$30,000.

The Institute considers a settlement on the agreed basis to be in the public interest. In the circumstances, the Institute is satisfied that there is no purpose to be served in pursuing disciplinary proceedings.

Details of the resolutions by agreement, disciplinary findings and the settlement are available on the Institute's website.

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The number of environmental, social and governance (ESG) metrics found in Mainland China's first ever voluntary corporate sustainability disclosure guidelines, which launched this month. The guidelines, which were published by the China Enterprise Reform and Development Society, a state-backed council, are expected to be first adopted by larger companies in Mainland China. ESG reporting is not mandatory for listed companies on the Mainland.

Swap Connect

The name of a new initiative by the Hong Kong Exchanges and Clearing Limited that will allow for Hong Kong and international investors to access the interest rate swap markets in Hong Kong and Mainland China. The scheme, which was announced on the same day as the ETF Connect on 4 July, marks another milestone in connecting the financial markets between Hong Kong and the Mainland, and is expected to launch before the end of the year.

Stephan von Erffa

The former head of accounting of Wirecard AG who admitted this month to forging documents requested by KPMG during a special audit. Von Erffa is one of three defendants in a case brought by prosecutors in Munich following the collapse of the German payments company, which filed for insolvency in June 2020.

Didi Global, Mainland China's ride-hailing giant, was fined US$1.2 billion this month by the Cyberspace Administration of China, for violating data security laws. The fine comes a year after the the country's central Internet regulator launched a cybersecurity investigation into the company shortly after its initial public offering in New York last June.

January

The month in which Ashley Alder, Chief Executive Officer of the Securities and Futures Commission (SFC), will leave his role next year, said the regulator this month. Alder, who has held the role since October 2011, is the SFC's longest serving CEO, and will be joining the Financial Conduct Authority, a regulator in the United Kingdom. A successor has not yet been identified. "I owe a debt of gratitude to all who have contributed to the evolution of the SFC into an organization which is acknowledged globally as one of a handful of world-class market regulators," Alder said in a statement.

£14.4 million

The amount KPMG in the United Kingdom was fined for deliberately providing false and misleading documents to the Financial Reporting Council during inspections of its audit on collapsed construction company Carillion plc and Regenersis, an outsourcing company. It is the biggest fine the firm has ever received in the U.K.

> "The ability to facilitate more travelling between Hong Kong and the Mainland and Hong Kong and internationally. I think that is at the moment the most critical constraint that we are facing and we have to overcome."

– Paul Chan FCPA, Hong Kong's Financial Secretary, told the *South China Morning Post* on 25 July. He warned that Hong Kong may have to downgrade its annual growth forecast in August for the second time in three months, citing constraints such as the city's daily COVID-19 infections, strict quarantine rules, supply chain issues on the Mainland, and high inflation in the United States and Europe, as reasons for the weak economy.

4

The number of additional members appointed to the International Sustainability Standards Board (ISSB). The IFRS Foundation Trustees announced the appointment of Jeffrey Hales, Michael Jantzi, Tae-Young Paik and Elizabeth Seeger as members of the ISSB. Their appointments make the ISSB quorate.

22

The number of listings the Hong Kong Exchanges and Clearing's main board saw in the first half of the year. The listings raised US$2.3 billion, which is the lowest total since the first half of 2003, which yielded US$802.3 million, the *South China Morning Post* reported. The lacklustre performance is due to economic uncertainty, geopolitical and pandemic-related factors, according to EY's *Mainland China and Hong Kong IPO Markets* report, released in June.

UNRAVELLING A WORLD WIDE WEB OF LIES

The prevalence of cryptocurrency globally is making it easier for cybercriminals to launder money. This, coupled with the uptick in e-commerce and flexible work arrangements, has created the perfect opportunity for crooks to exploit. Nicky Burridge speaks to anti-money laundering experts to find out how companies and individuals can identify suspicious transactions and stop crime from paying

Illustrations by Ibrahim Rayintakath

Hong Kong customs officials last year dismantled a syndicate that was using cryptocurrencies to "clean" HK$1.2 billion of illegal funds. While it was the first time that money launderers had been caught using cryptocurrencies in Hong Kong, it is unlikely to be an isolated incident. Globally, cybercriminals are estimated to have laundered US$8.6 billion through cryptocurrencies in 2021 – a 30 percent increase on the previous year, according to research by Chainanalysis.

Thomas Tsang CPA, Associate Director, Risk Consulting, KPMG China, is not surprised by the statistic. "Decentralized finance, including cryptocurrency, and virtual assets, such as non-fungible tokens (NFTs), have become very popular as a new avenue for money laundering that criminals are taking advantage of," he says.

Tsang explains that cryptocurrency and other virtual assets have qualities that make them very attractive to money launderers. Firstly, unlike opening bank accounts, crypto wallets can be easily set up. "You can download an app onto your smartphone and this does not require know-your-customer (KYC) procedures," he says. Even for cryptocurrency exchanges that have implemented KYC procedures, the level of these measures being applied may not be as stringent as those applied by regulated financial institutions. Secondly, cryptocurrency provides a higher degree of anonymity. "Even if transactions from one wallet to another are recorded on a blockchain, as is the case for Bitcoin, you may not know who holds or owns the wallets," adds Tsang.

Albert Lo FCPA, Partner, Deloitte Asia-Pacific, agrees, pointing out that the decentralized nature of cryptocurrency attracts criminals as it enables them to move money without leaving as much of a trail as they would if they used traditional banking. He adds that the transaction costs are also relatively low when compared to traditional means of laundering the proceeds of crime.

Chris Fordham CPA, Independent Forensic Consultant and Founding Member of the Hong Kong Institute of CPAs' Forensics Interest Group, points out

that although cryptocurrencies have been around for more than a decade, the regulation surrounding them is still emerging. "In the past there is a perception that crypto assets have been poorly regulated, but that is changing. There is emerging regulation across the globe, and with that regulation will come enforcement, but there are still going to be some weaknesses in the meantime."

But Fordham adds that criminals still need a way to convert cryptocurrency back to fiat currency, as there are limits to what cryptocurrency can be used for. "To convert it back, they need an exchange and an account, so they are still ultimately looking for a weakness on an exchange where there is a failing on KYC so that they can withdraw their funds in cash," he explains.

Despite the benefits of cryptocurrencies to launder money, Tsang says the sector may have lost some of its appeal recently due to the crash in prices of cryptocurrencies and virtual assets (e.g. NFTs) and the receding market liquidity. The crash was triggered by stablecoin TerraUSD's value dropping below its peg of US$1 following a large sale of the currency, leading to more tokens being minted to support the price, which in turn led to the price of Terra LUNA crashing. Bitcoin was also impacted by the crash, and has seen its value more than halve since January. He explains that as a result of this price volatility, cryptocurrency is deemed to be higher risk and less liquid, and it has lost some of its popularity as a means of money laundering, with criminals instead focusing on more traditional methods.

The situation in Hong Kong

The extent to which cryptocurrency is being used for money laundering in Hong Kong is difficult to gauge.

Tsang explains that virtual asset service providers (VASP) operating in Hong Kong are typically not licensed by the Securities and Futures Commission (SFC), unless they perform regulated activities that fall under the SFC's regulatory regime, such as dealing in virtual assets that are classed as securities or futures contracts, or by distributing or managing virtual asset funds. He adds that there is currently only one SFC-licensed virtual asset trading platform in Hong Kong, among a handful of other asset managers who distribute or manage virtual asset portfolios for professional investors. The regulatory landscape is set to change, as the Hong Kong government gazetted Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 in June, which will amend the current Anti-Money Laundering and Counter-Terrorist Financing Ordinance and introduce a licensing regime to close the existing regulatory gap by imposing anti-money laundering (AML) or counter-financing of terrorism requirements for VASPs of non-securities virtual assets in Hong Kong by 2023.

Although over the past year Hong Kong has detected a few money laundering cases with cryptocurrency usage, it is difficult to accurately estimate the volume of funds currently being laundered using cryptocurrency or VASPs in Hong Kong. However, Tsang believes there is no reason to think Hong Kong is different to other markets in terms of cryptocurrency being used as an avenue for money laundering, as the use of cryptocurrency is increasingly common. Fordham agrees: "I suspect the situation in Hong Kong, as a major financial centre in the world, is no better or worse than anywhere else."

Gloria So CPA, Partner, Risk Advisory Services, SW Hong Kong, says: "With the rising trend of using cryptocurrency as an option of settlement across businesses, it is becoming an area of concern for potential money laundering activities for local regulators."

She points out that in May, four people were arrested for laundering HK$600 million over a two-year period, HK$50 million of which was processed through an overseas cryptocurrency trading platform. "This shows that while the traditional medium of bank transfers and cross-border remittance remains the major means for money laundering activities, the use of cryptocurrency is a significant method being exploited by criminals," So says.

Lo agrees that while there is a growing trend to use cryptocurrency for money laundering in Hong Kong, it has not yet become a major channel. "Traditional banking, the use of e-wallets and other money service operators are still more commonly found ways for money laundering," he says.

Cynthia Chan CPA, Compliance Manager at a bank, thinks the most

"With the rising trend of using cryptocurrency as an option of settlement across businesses, it is becoming an area of concern for potential money laundering activities for local regulators."

common methods continue to be structuring large money transfers through multiple small transactions made through banks, with amounts often just below the approval threshold. Other popular methods include buying and selling real estate, using shell companies with nominee arrangements, and cross-border wire transfers.

Online opportunities

The pandemic has changed the behaviour of individuals and companies, providing more opportunities for criminals to commit crimes and launder the proceeds, according to Lo. "In particular, the pandemic has further promoted e-commerce and consumers have shifted to conducting their shopping online. Criminals have taken the opportunity to set up scam websites," he says. "Also, individuals who are facing financial difficulties because of the economic downturn become easy targets for recruitments by criminals to launder money through 'stooge accounts.'"

Chan points out that since the onset of the pandemic, there has been an increase in the use of online payments, third-party or cross-border fund transfers and remote account opening at banks.

Agnes Cheuk CPA, Compliance Manager at Airwallex Hong Kong, agrees. She points out that with the shift to online activities becoming the "new normal" as a result of COVID-19, there has been a surge in online fraud. "The pandemic has accelerated data and tech adoption, and created opportunities for more innovative solutions. Over the last few years, there has been an increasing trend in remote account openings. While there are benefits to the convenience and ease of opening an account remotely, this also creates more loopholes which criminals can exploit for money laundering," she says.

Fordham points out that the weakest link in a system is often humans, and working patterns adopted during the pandemic, such as working remotely or in split teams, has created more risk, which criminals have taken advantage of. "The compliance teams and anti-money laundering teams have also been working from home, and that has put pressure on them and their systems."

He points out that if someone receives an instruction they are not sure about in the office, they can walk over to someone else to check it, but this is harder to do when working remotely.

Anti-money laundering defences

While there is not much corporates can do to prevent money laundering through cryptocurrencies, there are a number of steps they can take to identify money laundering through other means. Chan advises businesses to formulate internal policies and guidelines related to AML and incorporate AML risk mitigating controls into their operations. These include taking steps such as performing adequate customer due diligence, conducting periodic reviews on customers, and carrying out ongoing transaction monitoring.

She adds that it is also important to set up a channel for staff to report suspicious transactions, backed by a team to investigate these reports, as well as providing continuous AML training to employees. Chan suggests accountants should be particularly cautious when providing advice to clients on the formation of trust or private funds, or the purchase and sale of real estate.

Chan adds individual consumers should also perform online background searches on counterparties before making any online payments, and not disclose their personal information, such as bank account passwords, which could be used by money launderers.

Cheuk suggests accountants should constantly question things and have a sceptical mindset. "Being sceptical is about being thoughtful and to have a questioning mind. This will allow you to be alert to situations and potential situations of error or fraud," she says.

She adds that accountants should also bear in mind that previous cases and patterns may not reflect the latest money laundering activities. "There is no one-size-fits-all solution for every scenario. An individual should exercise judgement based on the totality of facts, experience, and professional scepticism."

For financial institutions, Cheuk says technology is a key building block to implement money laundering controls. "Automation facilitates the customer life cycle management process in financial institutions, such as onboarding, sanctions screening, and transaction monitoring," she says. "Technology also plays an important part in the data analysis relating to emerging money laundering typologies with existing customer activities, as well as designing respective controls to manage money laundering risk," she says.

Mary Wong, Partner, AML and Sanctions Services, Greater Bay Area, KPMG China, also stresses that professional accountants should always be aware of new and emerging risks. She adds that they should be particularly vigilant as the economic situation is currently tough, which has already led to an increase in fraudulent activities. "As professional accountants, we need to be aware of all the evolving risks, since we are exposed to different industries."

She points out that the pandemic has accelerated the adoption of regulatory technology (RegTech) across all aspects of operations, in line with expectations for the financial service industry as highlighted by the local regulator. However, accountants should also explore how to use technology to assist their audit work, for example performing data analytics and industry benchmarking on sales or revenue figures to identify suspicious transaction patterns which may be indicative of fraud or even money laundering.

Fordham stresses the importance of training staff to be alert to the latest developments, as well as investing in technology. "It is important that institutions ensure their staff remain current in their knowledge, as criminals innovate, so staff need to be aware of the latest typologies, as these emerge and change.

"As professional accountants, we need to be aware of all the evolving risks, since we are exposed to different industries."

"Institutions should continue to invest in technology, such as artificial intelligence and data analytics, and continue to give relevant and appropriate training to their staff," he says.

Fordham adds that accounting firms should also ensure that there is no disconnect between the training they provide and what employees experience in day-to-day life as auditors. "Training should not be done in a vacuum, but should relate to real risks," he says.

Professionals should also make use of the resources available, such as those provided by the Association of Certified Anti-Money Laundering Specialists, to stay up to date with the latest trends, Fordham says. "Criminals innovate to get around controls, so you have to keep abreast of risk."

For small and medium practices (SMPs), So suggests taking the SAFE approach proposed by the Joint Financial Intelligence Unit (JFIU) to identify suspicious transactions.

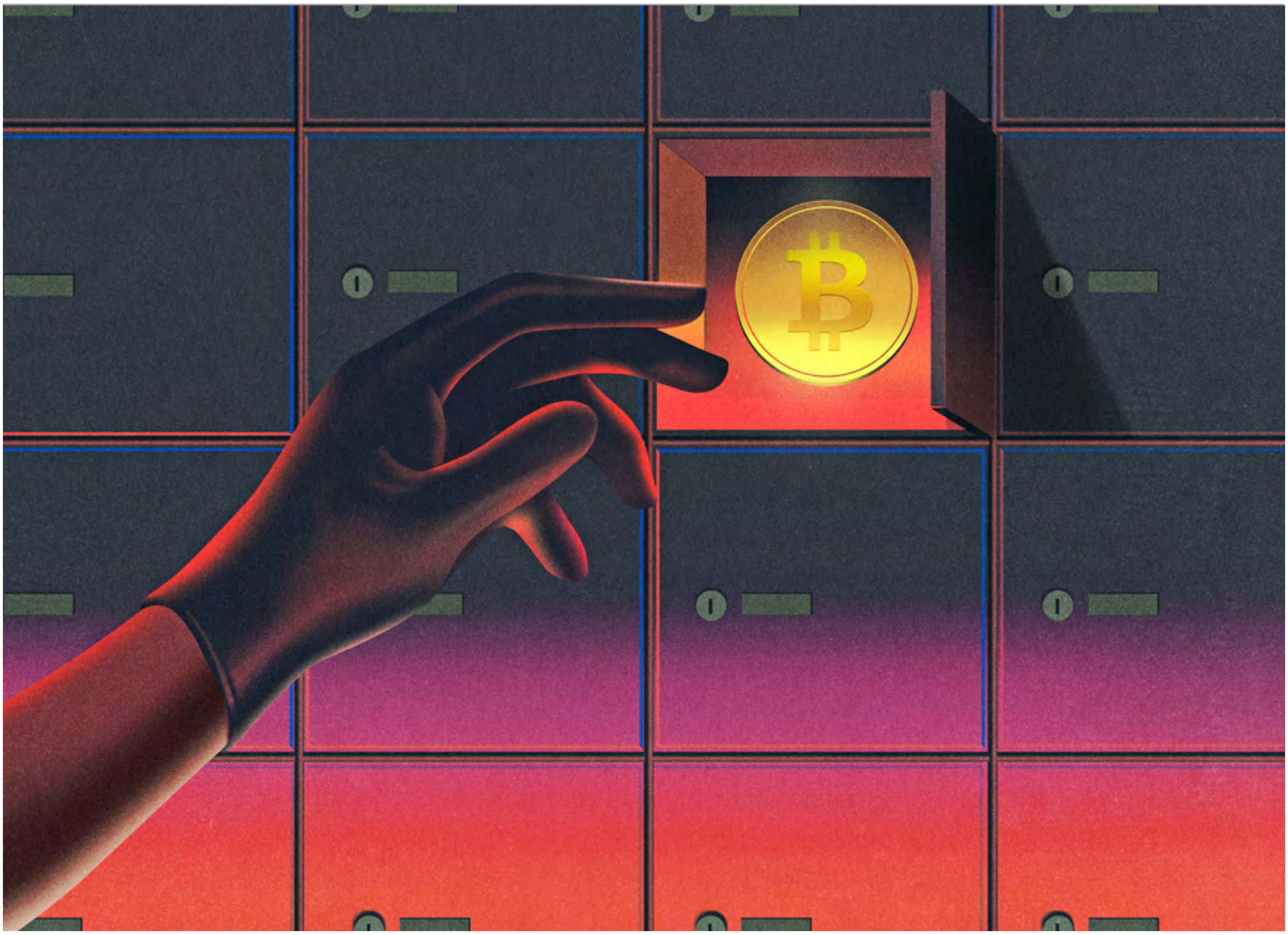
This approach involves screening accounts for suspicious indicators, asking the customer appropriate questions, finding the customers' records and reviewing information already known about them when assessing suspicious activity, and evaluating all the above information to determine if a transaction is suspicious. "The JFIU pointed out that many reporting institutions did not adopt a systematic approach in identifying suspicious financial activities. Commonly, institutions make a suspicious transaction report merely because a suspicious activity indicator has been recognized, but often they fail to capture the necessary information to make a solid case. Therefore, the SAFE approach can act as a systematic approach for SMPs to follow for effective reporting," she says.

But So adds that SMPs face a number of challenges in implementing AML controls. Smaller firms may lack a risk-based, regularly updated and business-aligned AML and counter-terrorism financing policy dynamic enough to keep pace with changes to the industry.

A failure to have comprehensive customer onboarding procedures can also lead to a lack of proper due diligence at the customer acquisition stage, while ongoing monitoring can also be an issue. "As SMPs may lack the necessary resources to install their own internal AML compliance function to perform the above, especially keeping up with changes in the industry, SMPs can ask for regular reviews of their compliance by an external consultant as an alternative to mitigate AML risks in an efficient manner," she says.

Identifying warning signs

Alongside having robust AML



policies and procedures in place, it is also important that accountants are alert to potential warning signs that money laundering may be taking place.

Red flags, Lo suggests, include transactions that seem to be inconsistent with a customer's known legitimate business or personal activities, or their means, as well as unusual deviations from normal account and transaction patterns. "They should also be alert for situations in which it is difficult to confirm the identity of a person, unauthorized or improperly recorded transactions, inadequate audit trails, and settlements by a third party, which are different from the customer represented," he says.

So suggests keeping an eye on large or frequent cash transactions resulting from deposits or withdrawals, accounts used as a temporary repository for funds, and periods of significantly increased activity following periods during which an account has been relatively dormant.

Other indicators can be "structuring" or "smurfing," when many lower value transactions are conducted when just one, or a few, large transactions could have been used, as well as "U-turn" transactions, which is when money passes from one person or company to another, and then back to the originator. Situations in which a customer is unwilling to provide an explanation for a transaction, or their explanation is found to be untrue should also spark concern.

Finally, So suggests accountants should be alert for transactions involving politically exposed persons, countries or nationals of countries commonly associated with terrorist activities, and currencies commonly associated with international crime or drug trafficking.

If accountants do uncover a potentially suspicious transaction, Cheuk says it is crucial to escalate it to the appropriate channel in a timely manner. Financial institutions and accounting firms should have a money laundering reporting officer, in accordance with the regulatory requirements, to review any suspicious activity reported and file it with the JFIU.

Fordham agrees: "Accountants need to follow the policies and procedures within their organization, talk to their supervisor, make an internal assessment report, and liaise with the money laundering reporting officer."

He stresses that it is also important to keep the issue confidential, as individuals must not tip off potential suspects. "There is a personal risk and liability. At the end of the day, there is a very good reason why we try to stop criminals laundering the proceeds of their clients: so that crime does not pay."

Globally, cybercriminals are estimated to have laundered US$8.6 billion through cryptocurrencies in 2021 – a 30 percent increase on the previous year, according to research by Chainanalysis.

CAPITALIZING ON CHANGE

For Gigi Chan CPA, Founder and Chief Executive Officer of investment company Wonder Capital Group, most of her career moves have been the result of seismic changes, from an unexpected crisis to a corporate culture overhaul. She talks to Jemelyn Yadao about how she uncovered her entrepreneurial spirit, and came to specialize in family offices and high-growth emerging markets using her skills and adaptability as an accountant

Photography by Thomas Cristofoletti

Mergers can feel like an earthquake. This was certainly the case for Gigi Chan CPA, after the American investment company Janus Capital Group merged with United Kingdom-based Henderson Global Investors in 2017.

"Things were shaky. After the merger, I was the only member of top management in Asia who could stay," says Chan, who managed the shockwaves at the time as head of Greater China of Janus Henderson Investors Group. "For around a year after we heard about the merger, I experienced dealing with the new staff, the new group chief executive officer, and the new group top management based in the United States and in the U.K. Then one day, I sat down and thought to myself: 'what should I do next?'"

She decided it was time to move on. Reacting or adapting to change has become a theme in Chan's career. Now the Founder and CEO of Wonder Capital Group, a Hong Kong-based boutique investment management firm, she expanded her business in 2020 to specialize in family offices serving high-net-worth individuals as a reaction to the COVID-19 pandemic.

Wonder Capital has a flagship private equity fund focused on Cambodia's capital Phnom Penh, and under that fund it operates a condominium development project called MESONG, which is set to be 252-metres tall, and the tallest building in the country. Because of the pandemic and travel constraints, both sales and construction work have become a lot more challenging, says Chan.

"On the positive side, with the established local team, reduced travelling allowed me to have more bandwidth to strategize how to adapt to such an adverse investment environment. To manage the risk of reducing returns, I needed to think about how to keep the company growing and identify new opportunities. That's why during the pandemic, I thought about what other kinds of business Wonder Capital should do," Chan explains. "I thought, as a boutique firm, how could I leverage on the resources my team and I have built in the past 20 years? And then I realized how I have a very diverse and resourceful group of lawyers and accountants in my team, and talked to people who are familiar with family offices. That's when we started the family office business."

She points out that many multi-family offices use a

similar strategy of partnering with private banks and other financial institutions to provide clients with a more balanced portfolio. Multi-family offices also provide investment advisory. Wonder Capital, on the other hand, positions itself as a solution provider in terms of both investments and financial advisory. "I believe we're able to offer more because we run our private equity fund and operate it day-to-day, and we also offer professional advice on the non-investment field," she adds. "With my audit and accounting experience, I have a good circle of accountants and lawyers, and this has helped a lot of family offices. For example, if they have an unstructured set-up for their investment portfolio or have business issues, we could give them valid advice from an accountant's or lawyer's standpoint. I think that's a value-added service and clients appreciate it."

A leading hub

Hong Kong in recent years has been focused on the family offices sector, recognizing it as an important growth segment in the wealth and asset management industry. Subsequently, the government has been developing an environment and policies to attract more family offices and high-net-worth individual investors. In June 2021, InvestHK announced the opening of the independent office of its FamilyOfficeHK team, which aims to support family offices to set up in the city. Also, in his budget speech delivered in February, Hong Kong's Financial Secretary proposed that tax concessions be provided for eligible family investment management entities managed by single family offices. The government has completed the consultation process on the proposed income tax exemption scheme for family office businesses in Hong Kong, and aims to introduce the amendment bill into the Legislative Council later this year.

Chan is pleased to see this emphasis on fostering the growth of family offices in Hong Kong. However, she points out that whether the world is heading into deglobalization or not, the city still faces challenges as a result of the pandemic. "Even if globalization continues, investors have become more sceptical on investments with less proximity. Hong Kong would

Gigi Chan CPA, pictured here at the construction site of MESONG, a condominium development project in Phnom Penh, started her asset management career at AllianceBernstein as chief financial officer for Asia.

need to identify its uniqueness in the global market given that other financial centres have been accumulating experiences and credentials in the past decade," she says. "It's hard because we are not doing low-price products. As investment managers, we need to do a lot of face-to-face meetings to explain the risks, build trust, and explain how you can achieve the returns. But mobility has been down to zero in the past couple of years due to travel restrictions."

Chan believes the work of InvestHK has never been more important. "I really appreciate the promotion that FamilyOfficeHK is doing. I also think we can do more to let people overseas know that Hong Kong is a very well-established, global platform for you to invest in different investment products, and invest anywhere, not just in the Hong Kong stock market."

She also notes that despite the challenges, she sees many opportunities in Hong Kong for her business. "I think many high-net-worth individuals and family offices in Mainland China lack international investment knowledge, and Hong Kong asset managers or family offices can fill in that gap. Hong Kong is also a very good gateway for clients in Mainland China to engage family offices in Hong Kong to look at global investment opportunities. I think this positioning is still strong," says Chan.

According to Chan, family offices are currently very risk-averse as there is a lot of fear in the market. "The high volatility of a secondary stock market and new era investment opportunities, such as cryptocurrency, not to mention the pandemic and the Russia-Ukraine war, is having an impact on market sentiments. Private equities have longer horizons than public markets, which make investors hesitate to invest due to too much uncertainty," she says. Asset reallocation is happening, she adds, with investors considering fixed income products, real estate and hard assets.

When it comes to the young generation who are becoming more engaged in family office investment decisions, Chan says they are "more open-minded," and are investing in crypto assets such as non-fungible tokens, despite the sector being clouded by volatility. "But for the traditional, 'old-gen' investors and family offices, many of them would love to try investing in virtual assets, but they won't because they are very alert. I think if the virtual asset is actually linked to real business, then that would change their behaviour."

Journey to Phnom Penh

Wonder Capital's interest and footprint in Cambodia started in 2018. After some nudging from a family friend in real estate, Chan packed her bags and flew to Cambodia to see the country's booming property market for herself. "They asked me to consider to invest. We did a lot of desktop research, but desktop research is not everything," she says. "You really need to experience it and do all the due diligence yourself, especially for an emerging market."

After that trip, several factors convinced Chan to launch a new economy fund focused in Cambodia, and start the MESONG project, including the country's political stability and young demographic. "Its gross domestic product annual growth rate averaged over 7 percent consecutively over the past nine years," she says. "These bring tremendous promising investment opportunities. We need to risk manage it by investing in quality hard assets to get the right balance for emerging market investments."

For Chan, it's clear that Southeast Asian countries are destinations with huge investment potential. "Southeast Asia is definitely a rising star. We have heard this for about two decades, but I think now really is the time to look into it because of the pandemic and the proximity to Greater China." She adds that around two years ago, sovereign wealth funds in the Middle East had set up teams focused on Southeast Asia for the first time.

With all the insight on emerging markets built from research, Chan in 2019 co-founded International Finance and Economic Association, a professional platform providing resources and advice to those considering to invest and start businesses in emerging markets. "Through this association, we can share the network and share the investment or business opportunities with the members. We have helped with some very successful cases where members have gone to Thailand or Cambodia to start their businesses, or have moved their manufacturing arm from China to Cambodia," she says. "And also from an investment standpoint, people can learn more

"Hong Kong is also a very good gateway for clients in Mainland China to engage family offices in Hong Kong to look at global investment opportunities. I think this positioning is still strong."

about Cambodia. We hope that through the association's activities, seminars and networking events, we can share all of these resources. Otherwise to me, it's a waste."

Back to client-facing

Chan looks back positively on her time at the now-defunct Arthur Andersen, where she worked as an auditor after graduating. "I enjoyed so much of my life at Arthur Andersen. It was fast-paced, I had early responsibilities and the firm had ambition."

This made her decision to leave the firm difficult. But with the firm collapsing following the Enron scandal, Chan and her colleagues found themselves thinking about their options out of panic. "At that moment, you needed to think through your career, your ambitions and about a way out. Perhaps if I had stayed longer, I could've developed my professional career and become a partner at PwC (the firm merged with Arthur Andersen in Hong Kong in 2002). But I have always reacted to change. That's who I am. I think it's important to react not quickly but thoughtfully to all changes."

After leaving Arthur Andersen, Chan worked at Hong Kong Exchanges and Clearing Limited (HKEX) as assistant manager of business finance. She says the transition to the corporate side was not easy. "HKEX is a regulator and listed company hybrid – stable, less mobile and more repetitive. I needed to adjust my mindset and approach to work."

Then in 2005, her asset management career kickstarted when she joined AllianceBernstein, the U.S.-based asset management firm, as chief financial officer for Asia. Her first task was focused around a buyout relating to the 50-50 joint venture between AllianceBernstein and Hong Kong property developer Sun Hung Kai Properties, which was created in 1997. "We acquired the 50 percent shares from Sun Hung Kai Properties. So at the beginning, I spent a considerable amount of time dealing with the two very different shareholders to make the transaction happen. Even though I had a finance role, I dealt with a lot of restructuring before and after the buyout, so it was a very interesting experience," says Chan.

In 2011, following her boss at AllianceBernstein, she made the move to U.S. investment management company Janus Capital Group where she was offered the role of chief operating officer for Asia Pacific to oversee back-office and middle-office operations. But a business trip to Taiwan exposed her ability to do more. "It was my second day, and my boss asked me to fly over to Taiwan to handle a litigation case. And while we were there, we took the chance to meet with the biggest clients – institutional clients and banks." After being pleasantly surprised with how she handled client relationships, her boss expanded her role after the trip to also head up the front line operations, including sales, and she became head of Asia Pacific. "My boss spotted my skills and he didn't hesitate to give me a chance and let me prove myself. I think along my career, I've been lucky to have met very good people," she says.

Chan cites her audit experience as the big reason behind those successful client meetings. She recalls that at Arthur Andersen, she worked alongside partners who not only had the technical skills, but were client-oriented. "That's how I grew," she says. "As part of the expanded role at Janus Capital, I needed to talk to clients, especially for big mandates worth over US$100 million. I needed to pitch them. I built up those skills from my training at Arthur Andersen."

While this moment pushed Chan out of her comfort zone and into sales, the biggest defining moment for her took place after the merger between Janus Capital Group and Henderson Global Investors, which formed Janus Henderson. She notes that her objectives at Janus Capital before the merger were clear – grow the company's business in Asia. But this changed with the merger, prompting her to consider her next career move. "After the merger, the focus was more on internal restructuring, making sure the culture was fine and less about growing the business."

Entrepreneurial mindset

Still attached to the idea of growing a business, Chan thought of Wonder Capital, which started out as a family investment and only had an asset management license. "It was a private equity fund. My family just hired people to trade on the stock market," she says. "I asked my husband, 'Should I turn Wonder Capital into my own business and use it as the platform for my next career achievement?' He had reservations because I had been working as an employee for around 17 years. He knew that running my own business would be challenging for me."

But after gaining support from her family, Chan came up with a business plan for Wonder Capital and presented it to her partners. As part of executing that plan, she expanded the business scope by attaining Hong Kong Securities and Futures Commission licenses Types 1 (dealing in securities) and 4 (advising on securities). "It's important to have types 1, 4 and 9 licenses so that Wonder Capital can offer a wider scope of services, and better cover and address clients' needs," she says.

Chan also hired two former employees from Janus Henderson. "I told them what I wanted to do and that it would be a totally different life and career, because they need to assume that they are running the business with me, instead of just doing their own tasks," she says. "I told them that after joining Wonder Capital, they may need to do anything and everything."

Chan now oversees a team of around 15 people in the Hong Kong office and 20 in Cambodia. She

> "Ultimately, I want to be resourceful for my whole team. So I think, for young accountants, it's good for them to try different things."

Chan, who worked at Arthur Andersen as an auditor before it collapsed, is President of International Finance and Economic Association, which provides resources and advice to people considering to invest and start businesses in emerging markets.

notes that her previous experience working in two sizable asset management firms has been critical in running her own business. "It's very important because you learn governance, you learn how to follow the system, and you learn discipline."

What perhaps has been even more valuable is the knowledge she developed on different business functions, allowing her to wear multiple hats. "I can assist my finance head. We could have a very thoughtful discussion on financial projections and the day-to-day accounting operations. On the other hand, I can talk to the salespeople about the sales strategy, how to pitch to clients, or how to approach branding. Ultimately, I want to be resourceful for my whole team. So I think, for young accountants, it's good for them to try different things."

Successful-to-be

Chan studied Accounting at the Hong Kong University of Science and Technology (HKUST). "I visited HKUST, which had the best campus and facilities at that time. It was just too tempting to reject," she says, adding that she was also prompted by a belief that accounting is "a universal tool for everything."

"For me, when you're analysing investments, for example, and looking at different local business environments, cultures, and industries, the only common language to link all of this together is accounting. It can show you how profitable or how successful your business or investment is," says Chan, who also holds a Master of Economics from the University of Hong Kong, and an Executive MBA from the University of Oxford.

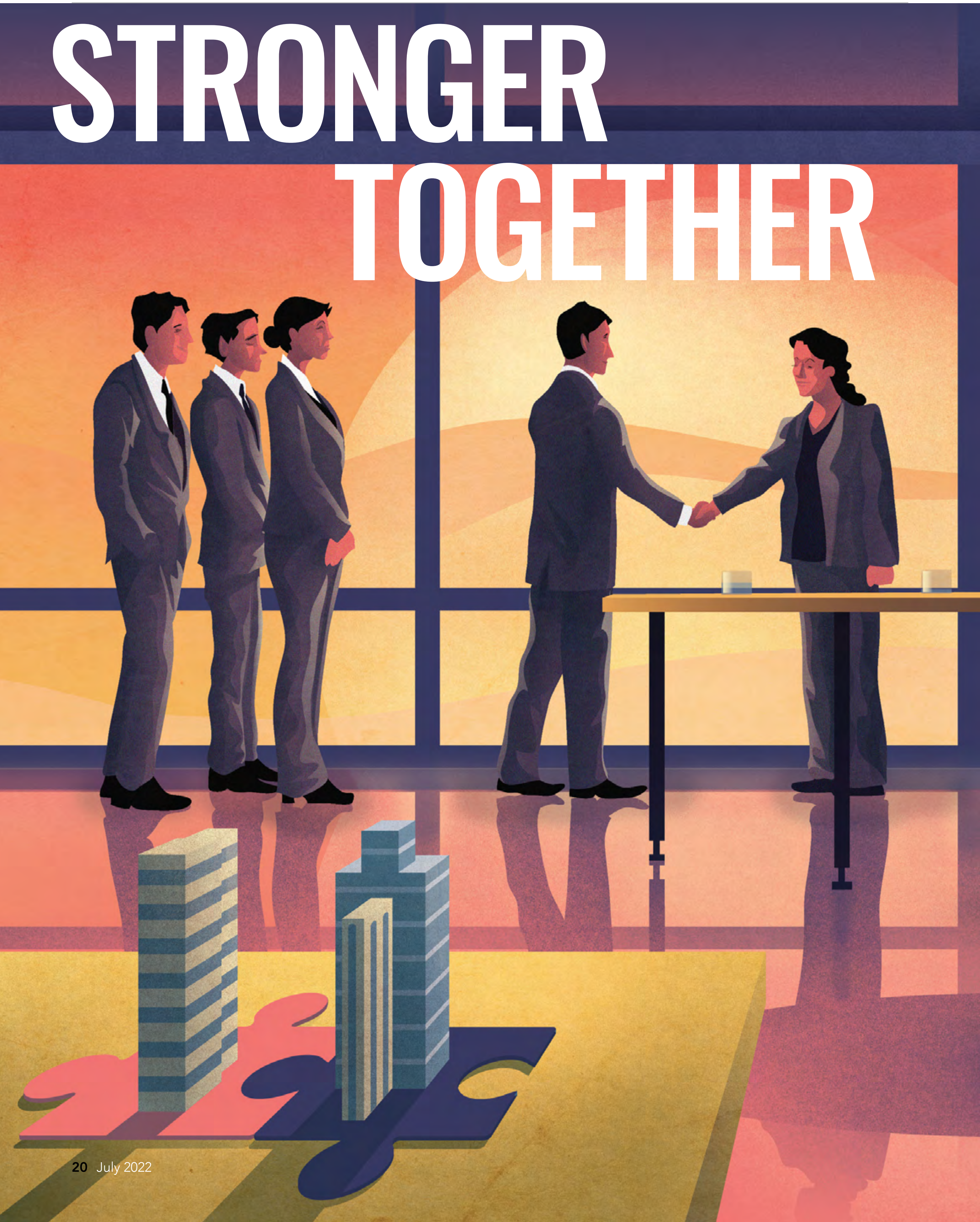
"Also, if you look at the top management at many conglomerates, you'll find that a lot of them were auditors in the past." Indeed, Chan believes her CPA qualification and training not only gave her the communication skills that are crucial in the asset management industry, but also the foundational skills needed in a range of career paths. "I've seen many people who started their careers as auditors then later became a finance director or CFO. It's important to remember that with the skills developed as an accountant, you can be successful in business," she says.

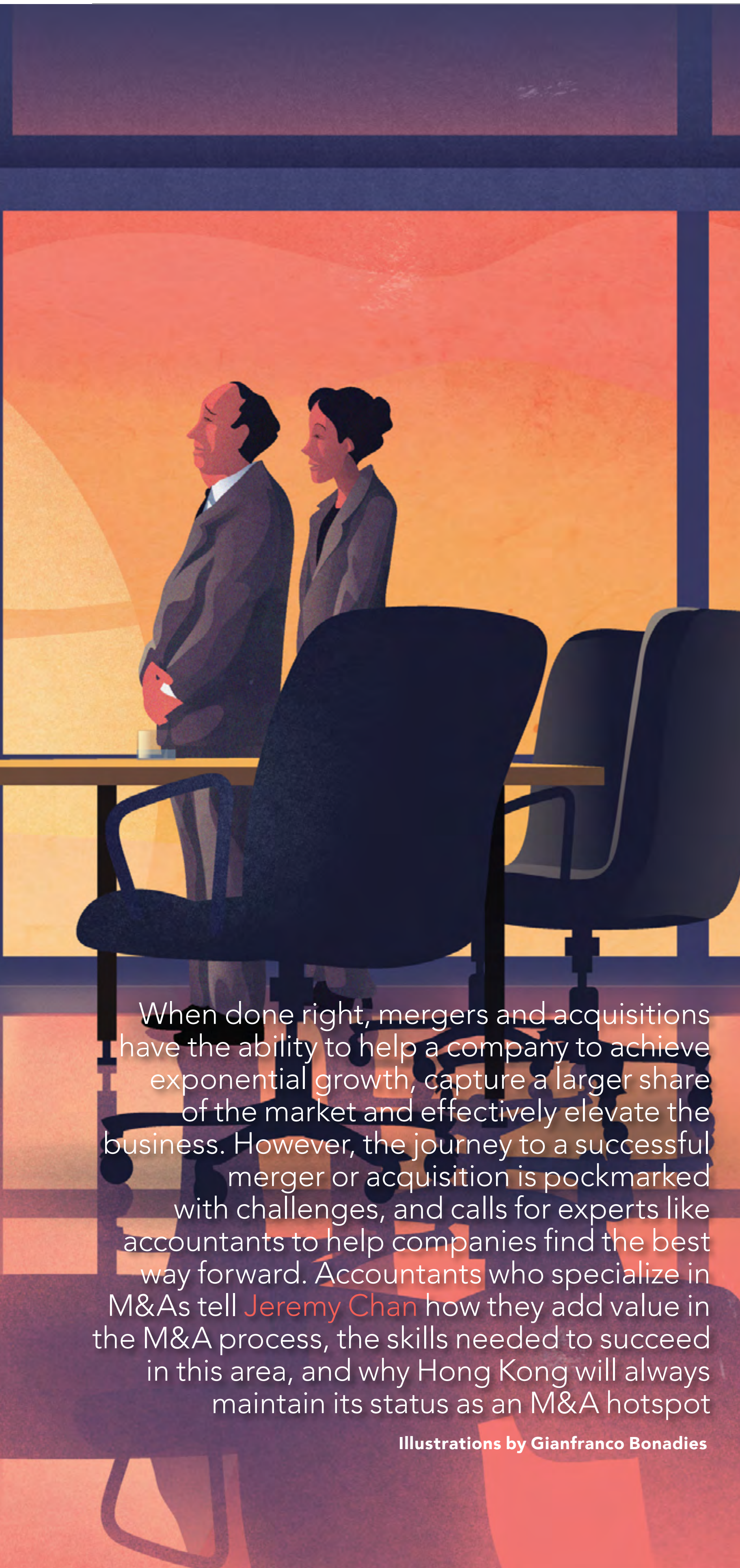
Chan firmly maintains that she is not a successful entrepreneur, but is headstrong on achieving the goals of the company. "I like to say that I'm 'successful-to-be.' I think it's important to have that drive. When people say that the Cambodia project is amazing, I say 'when it's completed, then you can praise me,'" she laughs.

While such projects and her clients keep her extremely busy, she's never too busy for family. "I have two boys and the eldest is currently applying for university. My passion are my boys. I really want them to be successful."

In his budget speech delivered in February, Hong Kong's Financial Secretary proposed that tax concessions be provided for eligible family investment management entities managed by single family offices, to enhance Hong Kong's attractiveness as a family office hub.

STRONGER TOGETHER





When done right, mergers and acquisitions have the ability to help a company to achieve exponential growth, capture a larger share of the market and effectively elevate the business. However, the journey to a successful merger or acquisition is pockmarked with challenges, and calls for experts like accountants to help companies find the best way forward. Accountants who specialize in M&As tell Jeremy Chan how they add value in the M&A process, the skills needed to succeed in this area, and why Hong Kong will always maintain its status as an M&A hotspot

Illustrations by Gianfranco Bonadies

To a company, there are few decisions that are as important – and critical to get right – as mergers and acquisitions (M&A). While there is a long list of benefits for companies, it can be easy for them to get distracted by the merits, and in doing so, fail to navigate the risks that threaten transactions. Aron Leung CPA, who has spent more than 20 years of his career dealing with M&As, knows this well. "From the perspective of the buyers, the most common risk in every acquisition is the lack of a thorough understanding of the target company, and an understatement of the resources required to manage the acquisition process. This could lead to a huge cost," says Leung, Director and Advisor of a consulting services company, and a member of the Hong Kong Institute of CPAs' Corporate Finance Committee (CFC).

Valuation experts, lawyers, investment bankers and advisors work closely together to steer companies through the delicate process – and all of them rely on the expertise of an accountant. "As accountants, we act as independent advisors to buyers, who want to understand different areas of the target company. So we conduct financial and tax due diligence reviews of the acquisition target. It's our job to help them identify the risks and opportunities of the transaction," adds Leung. "We contribute to various phases in the acquisition process."

Leung is one of a growing number of accountants who specialize in M&A. Drawn to the fast-paced and often unpredictable nature of the job, they are also attracted to the potential found within Hong Kong, which has long served as an M&A hub for domestic, Mainland and multinational companies.

There were 1,529 M&A deals in Hong Kong worth a combined value of US$182.79 billion in 2021, representing a 49 percent increase in value from 2020, according to the *South China Morning Post*, citing data from Refinitiv. It is the largest number of M&A transactions seen in Hong Kong since 2017, when M&A deals totalled US$207.52 billion.

M&A deals in both Hong Kong and Mainland China totalled 2,381 in 2021 – the most deals since 2006 – according to *China & Hong Kong Trend Report FY 2021*, a report released in January and conducted by Mergermarket, a financial data provider. The study found there was a 13 percent increase in deal values compared to 2020, totalling US$545.2 billion in 2021, and an 18 percent increase in deals, also compared to the previous year. The boom in M&As last year is largely attributed to company mergers in infrastructure and technology, media and telecommunications, and an increase in private equity buyouts.

Strategically positioned

Hong Kong's proximity to Mainland China has helped to bolster M&A activity in the city. It serves as a key connector for overseas companies hoping to acquire companies located in Mainland China and vice versa. Despite ongoing travel restrictions continuing to impact foreign inbound investments in Mainland China this year, Hong Kong's stable legal system, for example, continues to provide much-needed comfort to investors looking to tap into the Mainland market. "Certain foreign investors are not familiar with the interpretation of legal rules and government policies on the Mainland – and this brings uncertainty," says Thomas Tang CPA, Partner, Deal Advisory at KPMG. "For inbound investments, Hong Kong is a platform for investors to invest into the Mainland; it provides them with more visibility in terms of the key aspects of agreements under Hong Kong law."

Both Mainland and overseas investors are also drawn to the city's status as an international financial hub and its deep capital pools, notes Jacky Lai CPA (practising), Partner, Assurance at EY. "Hong Kong's financial market has the right size and depth, along with a rich talent pool in professional services, and a diverse suite of financial products and highly liquid currency. All of these give Hong Kong the edge in terms of being a hub for overseas M&A – whether it is inbound or outbound," he says.

Hong Kong's culturally-astute talent pool also provides the city with a key advantage that few other cities have. "Apart from a good command of English and Mandarin, we in Hong Kong have a good understanding of the recent developments, practices and most importantly, the culture of China, and at the same time we have a global mindset, compared to other financial hubs. This is a unique advantage that Hong Kong has," points out James Cheng CPA, Investment Director at China Everbright Limited and a member of the CFC. "There are also various M&A-friendly policies and infrastructure in Hong Kong, for example our stable tax system and incentives, tax treaties with China, free flow of capital, and revised limited partnership fund regime, to name a few. These all make Hong Kong an ideal destination for doing M&A in China, Asia and beyond."

Backed by SPACs

Another force driving M&A activity in Hong Kong is start-ups going public by merging with special purpose acquisition companies (SPACs). Also known as "blank cheque companies," SPACs are designed to raise funds in an initial public offering (IPO) with the aim of acquiring a private business at a later stage. The introduction of the Hong Kong Stock Exchange's (HKEX) SPAC listing regime, which came into effect in January this year, will not only lead to more M&A deals, but also provide investor assurance. A total of 12 SPACs have applied to list in Hong Kong since January, and the city saw its first ever SPAC listing in March.

> "For inbound investments, Hong Kong is a platform for investors to invest into the Mainland; it provides them with more visibility in terms of the key aspects of agreements under Hong Kong law."

The final rules of the new SPAC listing regime require SPAC promoters, which refer to experienced and reputable professional managers, such as private equity firms or institutional investors, to be licensed by the Securities and Futures Commission (SFC) and for all SPAC initial offerings to raise a minimum of HK$1 billion in funds, among other requirements.

Cheng welcomes the new SPAC regime and says it will benefit both start-ups in Hong Kong and the Greater Bay Area (GBA), and pave the way for more listings in Hong Kong. "As a start-up course lecturer in the University of Hong Kong for the past two years, I see it as a huge positive to the start-up ecosystem in Hong Kong and the GBA. Nowadays, start-ups customarily seek external capital during growth stage, and these investors need to feel comfortable with the prospect of realizing an investment before making one. While IPOs as a pathway to realize investments are time-consuming, and market sentiment at listing is notoriously difficult to predict, SPACs provide a very efficient and less time-consuming alternative of getting businesses listed. It provides investors with certainty to realize investments when they invest in early-stage companies, for instance tech start-ups, and will in turn drive more money into the market to fund the brilliant ideas I have seen in the past couple years," he says.

As required by the new listing regime, a de-SPAC transaction – which is a company merger involving a SPAC, a buying entity and a target private business – must take place within 24 months of a listing, with acquisitions to be completed within 36 months of a listing. This will inevitably add thrust to M&A transactions, adds Andrew D'Azevedo, Tax Partner at PwC Hong Kong and Mainland China. "We have seen some difficulties in the SPAC market, one example being time pressure in finding suitable targets to buy," he says.

The new rules will also favour quality listings over quantity, requiring that the business to be acquired, also known as a de-SPAC target, must effectively meet the new listing requirements and be large enough that its fair market value would be at least 80 percent of the initial funds raised by the SPAC. "In other words, what we don't want to see is a SPAC buying into sub-standard companies, leading to a failed SPAC arrangement," explains Tang. "With the HKEX's SPAC listing rules, we should expect SPAC transactions to be of a fairly good quality. This will create another layer of comfort for investors who want to enter the SPAC market."

D'Azevedo concurs, and notes that the new regulations will provide an impetus for SPAC listings to perform better and allay any investor concerns. "The regulators in Hong Kong now require a higher standard in terms of promotors and sponsors. This will boost investor confidence, but at the same time, put more pressure on seeing a successful SPAC transaction through to the end."

CPAs in M&As

As Lai notes, accountants play a vital role in every M&A deal, and are often involved in the beginning stages of the process with other experts. "Before a target is even marketed to the buyer, bankers, advisors and accountants would ensure that the appropriate financial information is in place, and that a deal model with proper profit or cash projections are ready for the potential buyers," he says.

The most taxing aspect of every M&A is the due diligence process, which begins upon the acceptance of the offer. This sees the M&A team conducting a detailed examination of the target company's operations, such as its financial metrics, assets and liabilities, customers, and environmental, social and governance (ESG) performance. The due diligence process is crucial, Lai adds, as it helps the M&A team and accountants test assumptions and identify any issues hidden within the target company. "It helps us to identify the transaction value drivers, improve the M&A deal structure, and mitigate any related risks," he explains.

Indeed, performing due diligence helps accountants to structure the deal itself. In an M&A, a deal structure essentially outlines how the deal will generate value for all parties involved, and takes into account issues that may arise several years into the future and in particular, unforeseen risks that could impact the deal. "As a result of the findings from our due diligence, we're able to advise clients on the risk areas of the target business, and how to best mitigate them through transaction documentation and structuring the deal," says D'Azevedo. "We can provide financial, tax and any other technical input required for our clients to make an informed decision before going ahead or deciding to pull the plug on a deal."

D'Azevedo, who specializes in regional M&A deals involving multiple jurisdictions, notes that tax issues uncovered during due diligence could have the potential to adversely impact the

deal process. "We have seen a few isolated cases where a tax issue we've identified through due diligence has actually turned into a deal-breaker, where either the buyer has walked away, or where the deal structure has had to be completely revamped or renegotiated to allow sufficient comfort for the buyer, so that historical tax risks will not be inherited."

Accountants also play a key role after the deal has been signed. "We often pop champagne and celebrate after a deal is signed, but it is only the beginning of a long value creation journey," notes Cheng, highlighting that accountants play pivotal roles throughout the journey from acquisition to post-deal management and eventually exit. "If the financials do not reflect the underlying business operations, the valuation can only be wrong, not to mention heightened risks on profitability, cash flow, internal controls and even operations, strategic decision-making and business viability," he says.

Sustainable value

A target company's ESG performance is becoming an increasingly important deciding factor in M&A deals. According to *The ESG Imperative in M&A*, a report by Bain & Company released in February, more than 50 percent of M&A practitioners see ESG leadership as justifying deal valuations.

D'Azevedo has seen how a company's ESG performance can impact its overall valuation following the due diligence process. "ESG is now a key value driver," he says. "Certain ESG factors could justify a much higher purchase price and indicate that the investment is resilient in performance post-deal, and hence, future exit value."

There is also increasing demand from investors for companies that place sustainability at the forefront of their operations, notes Lai. "Certain financial institutions have already been mandated to increase their investment in sustainable products and disclose their level of green investments – these developments are driven by a strong push from institutional investors to build a green and more socially-responsible portfolio," he says. "Institutional investors can significantly influence M&A-related decisions of the companies they have invested in." For example, American investment

"Certain ESG factors could justify a much higher purchase price and indicate that the investment is resilient in performance post-deal."

bank Goldman Sachs Group Inc. acquired NN Investment Partners, a top-ranked ESG asset manager in Europe, for US$1.9 billion in April, adding ESG offerings to Goldman's existing offerings.

The demand for sustainability has led to ESG experts joining the due diligence process, with accountants having to work closely with them to scrutinize a target company's ESG priorities. ESG due diligence typically involves the collection of ESG key performance indicators, documents, performing interviews with company stakeholders, performing checks and reviews, and physical inspections in order to compile an ESG risk assessment, according to Lai. "All of these steps – and the skill sets required – are largely similar to financial due diligence. It isn't uncommon to see advisors and ESG experts working together with accountants to perform ESG due diligence these days," he explains.

Working as one

Accountants who are part of an M&A team have to be effective communicators in order to generate value alongside the different experts they work with. It is therefore crucial that team members highlight risks or findings as soon as they are discovered, as this will not only ensure issues can be quickly addressed, but also establish trust, and lead to greater overall transparency within the team. "We cannot do work in silos," stresses Tang. "We need to work hand in hand with other advisors and investors to make sure that we clearly communicate our findings. This helps everybody to gain a better understanding of the target company from different perspectives."

D'Azevedo notes that close communication throughout the entire M&A process will help the team to build trust with the client. "Teams have to be connected and aware of the risks each member is highlighting throughout the deal process. This is the only way that ensures a coordinated approach when we deliver our findings to the client," he says. "It is important for the client to know that they're working with one coordinated team, instead of a decentralized team that isn't communicating with each other."

Lai says the meticulous nature of M&As makes it a specialization worth considering for accountants. "The foundation of an accountant's work is analysing and comprehending data sets and numbers, and a lot of what we do in an M&A relies on the details of both the process and analysis. We have to be detail-oriented; if the details in an M&A aren't right, it can jeopardize the entire deal," he says.

CPAs who are interested in understanding more about M&As and meeting like-minded individuals can consider attending events hosting by the Institute's Corporate Finance Interest Group (CFIG), says Leung. "The CFIG is made up of professionals from a wide variety of backgrounds and experience. Some of them, like myself, are more experienced in M&As, whereas others specialize in listing matters, IPOs, investment banking and private equity. So it's a great way to network with people from different backgrounds," he says. "We can provide a lot of insight into how the process works, and to help members stay updated on the latest developments in M&A."

Cheng invites CPAs to not only attend in-person seminars and webinars, but to also put forward their suggestions as to what they would like to learn. "While we actively identify topics for our members, we always listen to our fellow members on what interests them, and we reach out for appropriate speakers," he says, noting how he helped to organize a webinar on SPACs in 2021 and invited lawyers to speak on the topic. "We're always happy to get in touch with our contacts for future webinars."

To buy or not to buy?

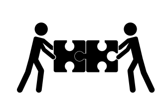
While an M&A may seem like an obvious strategy for future growth, it is crucial for companies

"A lot of what we do in an M&A relies on the details of both the process and analysis. We have to be detail-oriented; if the details in an M&A aren't right, it can jeopardize the entire deal."

to conduct the proper research into the company they hope to acquire or merge with, and whether doing so will fit into the long-term growth strategy of the organization. "Internally, they should look into whether the target company can really add synergy or value to their existing business," Tang explains. "It is key for them to do this before jumping into doing all the detailed execution work." D'Azevedo agrees, noting that a client has to assess the commerciality of a deal, long before proceeding to the due diligence process. "Because once that starts, advisor fees can rack up pretty quickly," he says.

Lai says companies can consider financial forecasting to determine what they will ultimately gain from the acquisition or merger. "They can estimate the value their business will gain through modelling the economic benefits of the services, solutions and clients a target has access to. Perhaps the acquisition will help them to gain more share from a competitor, or it may open up a new revenue stream outside of their current dimension," he says.

With the right preparation, and team to conduct due diligence and coordinate the deal, the company will stand a better chance in reaping the benefits of an acquisition, Lai concludes. "As with most aspects of business, acquisitions also carry risk. But by being strategic, and basing decisions on robust due diligence – especially around culture fit and value alignment – a business can come out of an acquisition stronger than ever."



There were 1,529 M&A deals in Hong Kong in 2021. The deals are worth a combined value of US$182.79 billion and is the largest number of M&A transactions seen in Hong Kong since 2017, which netted US$207.52 billion in deal value.

SECOND OPINIONS: HOW CAN ACCOUNTANTS LEVERAGE TECHNOLOGY TO PROVIDE BETTER ADVISORY?

VINCENT CHAN CPA
PARTNER AT EY, AND CO-CONVENOR OF THE INSTITUTE'S INFORMATION, COMMUNICATIONS AND TECHNOLOGY INTEREST GROUP ORGANIZING COMMITTEE

Ever since the introduction of technology and automation in business many years ago, the question on everyone's mind is: "Will my job be replaced by artificial intelligence (AI) and robots one day?" It is certainly a fair question for accounting professionals too, as some would even say that accountants face a higher likelihood of being replaced in this regard, as our work is largely rule-based and computation is at the heart of it.

Today, with the increasing maturity of business applications of emerging technologies like AI, blockchain, cloud and data (sometimes referred to as the "ABCD" technologies), it is ever more important for accountants to leverage these technologies in order to stay relevant. For example, with technology, accountants can focus more time on value-added activities, decision-making and tackling complex business issues, leaving those time-consuming and repetitive tasks to tools like robotic process automation. Auditors can cover a broader sample in testing using data analytics and obtain more insight from the underlying data. With the decreasing cost of storage and hardware, increasing processing power, and the availability of on-demand processing through cloud, big data analytics will soon become a widely available tool for all.

The role of accountants is equally important in advising businesses that are going through various types of digital transformation, whether it is transforming internal functions like finance, enhancing customers' experience with mobile apps and AI chatbots, or embarking on innovative ideas like engaging customers and employees in the metaverse. For instance, the availability of cloud and other subscription-based solutions provides good options for businesses looking to switch from a capital expenditure model to more of an operational expenditure one through having less on-premises technology, not worrying about the ownership of systems, and having a full team of technology professionals, especially when there is an expertise shortage in the global market. Being equipped with a good understanding and appreciation of the nature and mechanics of these technologies and solutions, the cost and ownership models, and also the business risks involved (such as cybersecurity and data privacy) will help accountants to be valuable advisors to the business.

"The role of accountants is equally important in advising businesses that are going through various types of digital transformation."

In this post-COVID era, people are more receptive to the use and adoption of technologies than ever before, from simple virtual workplace tools to help teams collaborate remotely, to full-scale inside-out digital transformations of the businesses. Now is the time for accountants to leverage technologies to create innovative ways to do their job better, and to become the next generation of business advisors.

REX LEUNG FCPA (PRACTISING)
PARTNER AT
LINKERS CPA LIMITED

The COVID-19 pandemic has forced companies to transform their business models and digitalize their operations to keep the ball rolling. This has also led to the implementation of work-from-home arrangements, with companies realizing that there are different ways to operate and communicate.

But surviving, and most importantly, thriving within this new normal still presents great challenges for most businesses and accountants. How can accountants grasp such opportunities to provide better advisory services and help more businesses?

Accountants in our firm, for example, have had to adopt and leverage new technology in order to advise the clients on digital transformation. Business owners may consider asking themselves the following questions to review, rethink and reset their business model:

1. Is your workforce remote-ready, in terms of infrastructure, communication channels and reporting protocols? Are employees able to maintain normal operations anywhere outside the office?
2. Have you reviewed which functions are most essential to your business nature, whether they can be digitalized, and how this might benefit your company?
3. Have you considered migrating some of your key functions to the cloud to enhance productivity or even add value to your company?

"By properly implementing tech solutions, and using them to their full potential, accountants are able to provide better advisory services to clients."

More businesses are migrating finance and human resources (HR) functions to the cloud or outsourcing both, allowing owners to focus on driving the businesses and providing them with access to the company's financial and HR activities in real-time. Being able to access such key financial information offers the following advantages:

- Visibility of the current financial position at any time from anywhere and multi-user access;
- No need to invest in hardware, servers, or external memory to maintain these solutions; all data is automatically uploaded and updated on the cloud platform; and
- With no upfront costs, most cloud solutions operate via a monthly subscription basis, providing companies with the flexibility to scale up the level of service as needed.

Keeping a business going and expanding in such a highly competitive and challenging environment isn't easy. But by properly implementing tech solutions, and using them to their full potential, accountants are able to provide better advisory services to clients and to continue thriving amid the new normal.

KEITH WILLIAMSON CPA
MANAGING DIRECTOR AND ASIA LEAD OF
DISPUTES AND INVESTIGATIONS AT
ALVAREZ & MARSAL

For forensic accountants, leveraging technology is critical to performing thorough corporate investigations and compliance reviews in line with the requirements of regulators, law enforcement agencies, investors and other stakeholders, while minimizing business disruption and controlling the cost of forensic accountants and other advisors.

Extracting accounting and transactional data from disparate systems, and analysing, interpreting and presenting it electronically is key to identifying a corrupt or fraudulent transaction among millions of line items of legitimate business transactions. Equally, extracting electronic correspondence and data from devices and servers, and subsequently preserving, processing, keyword searching and reviewing such data is important to identify the who, why, what, when and where of suspected inappropriate activity.

Given the challenges of working remotely and the travel restrictions imposed over the past two and half years, particularly in Asia, the importance of technology to assist in corporate investigations and compliance reviews is greater than ever. For example, data analytics and eDiscovery reviews can largely be performed remotely with minimal disruption to finance and operational teams, and without tipping off suspected fraudsters or corrupt employees that an investigation is underway.

Data analytics is not only important to the success and efficiency of forensic accounting investigations but can also be used by finance teams or internal auditors as an effective remote monitoring tool. The thoughtful design and scoring of relevant tests to run across accounting data covering transactions, third parties and employees enables the creation of a risk profile model that allows investigators, finance teams and internal auditors to focus their limited resources on identifying the highest risk patterns.

As well as providing a defensible and cost-effective investigation methodology, data analytics risk modelling is an effective, focused and repeatable monitoring tool that provides an added layer of protection to any compliance regime.

The use of data analytics for investigations and compliance reviews has enabled us to identify corrupt and fraudulent transactions and schemes that would have been extremely time-consuming and difficult, if not impossible, to identify otherwise. We can still present a defensible investigation methodology to law enforcement agencies and regulators, such as the United States' Department of Justice and Securities and Exchange Commission, which satisfies them that our clients have conducted a thorough review that would have identified evidence of inappropriate transactions if they did, in fact, exist.

"The importance of technology to assist in corporate investigations and compliance reviews is greater than ever."

HOW TO

by Herbert Yung FCPA

The Director, Member Engagement and Sustainability Lead at the Hong Kong Institute of CPAs on how CPAs can drive better sustainability practices in organizations

How CPAs can drive change and lead the way on sustainability

It is clear that more and more organizations are now beginning to consider how they should align their operations and strategy with sustainability goals while pursuing better business returns. No matter the maturity and management approach of an organization on sustainability, CPAs can definitely make significant contributions in driving positive change and lead the way to achieve sustainability by leveraging their expertise in accounting and financial reporting, as well as their unique knowledge and influence in both operational and strategic areas of the organization. Here are ways CPAs could contribute:

1. Enhancing the understanding of sustainability risks and opportunities

There are many sustainability issues that organizations may face – what should be given priority in view of limited resources and time? Many organizations choose to conduct risk and opportunity assessments to evaluate internal and external environments before embarking on their sustainability journey. Besides the traditional stakeholder engagement and qualitative evaluation approach, CPAs can help quantify the risks and opportunities in terms of enterprise value. While financial performance is not the sole consideration, being able to help visualize and contextualize the financial impact of sustainability issues may help organizations make informed decisions on an objective basis, and get better buy-in from the board.

2. Integrating sustainability into business processes

Sustainability is not an independent matter – to be part of the solution towards global climate change and social challenges, organizations need to integrate sustainability into their operations and explore how they can minimize their negative impact while making contributions through their daily activities. While some changes require specific technical knowledge where initiatives are to be developed by internal or external subject matter experts, CPAs are likely to possess holistic views of the organization as well as know-how when it comes to governance and controls. Therefore, they can advise on the feasibility, resource implications, and how such initiatives could be implemented without disrupting the business.

3. Development of KPIs

In order to monitor and manage sustainability progress over time, performance tracking mechanisms will need to be developed. These commonly come in the form of defining and measuring relevant key performance indicators (KPIs). CPAs could play significant roles in advising on how KPIs could be designed to be more specific, relevant and measurable, and facilitate the understanding of how they could be linked to overall sustainability and financial performance. CPAs' experience could help organizations in establishing data collection mechanisms, while leveraging existing information and protocols as much as possible to achieve greater efficiency in reporting and monitoring the KPIs.

4. Data analytics

Being able to identify trends and develop insights from data collected throughout the organization's operations is one of the key factors to become a leader in sustainability in the market. It could be challenging and resource-intensive as the volume of data is typically very large and further processing will likely be required before relevant data can be used. However, CPAs, who are familiar with the analytical interpretation of numbers, are well-placed to unlock the value of data. Leveraging their access to and ability to comprehend operational and financial data sets alongside sustainability information, could inform organizations to take appropriate responses to further enhance performances and reduce risks.

5. Sustainability reporting

As sustainability reporting is moving from a voluntary best practice towards a mandatory disclosure as required by regulators, investors and other stakeholders, having transparent and accurate reporting on sustainability is critical for organizations. A robust reporting system is an essential element in achieving quality disclosures, which means CPAs could be a key contributor through educating staff members on the appropriate reporting principles, establishing control mechanisms, and conducting reviews on the reported information, through making reference to their financial reporting experience and standards. CPAs could also advise on how to better articulate the relationship between sustainability and businesses, in order to meet the expectations of stakeholders and regulatory requirements.

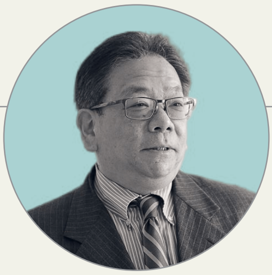
6. Internal communications

Driving sustainability performance requires a change in mindset and joint commitment within the organization. By providing connectivity between leadership and operation teams, CPAs can help serve as an agent of change to facilitate discussions across levels on how organizations could achieve better results and on the way forward, with the commercial benefits such as cost savings and streamlining of operations better articulated throughout. CPAs could also help advise on appropriate sustainability targets considering the ambition and available resources, establish policies to help achieve the goals, and continue monitoring and updating the progress to the board.

To play such critical roles in sustainability, CPAs should acquire knowledge on sustainability subject matters and best practices that are relevant to their organizations. Also, they should be aware of the evolving sustainability reporting frameworks, standards, and requirements, and keep up-to-date with the latest developments and trends on sustainability. The Institute has established the ESG Information Centre on our website, which provides news, articles and learning resources on sustainability that are relevant to the profession. Various CPD courses are also being launched to support our members in getting ready for the growing expectations for CPAs on sustainability.

Len Jui

The Deputy Chair of International Auditing and Assurance Standards Board and KPMG China Partner on the IAASB's readiness to take action amid a growing demand for assurance on sustainability reporting



Charting the new era of globally accepted international sustainability assurance standards

Globally, there is increasing demand from a broad range of stakeholders for organizations to provide transparency about their sustainability, including environmental, social and governance (ESG) matters. There is also a global trend whereby organizations are shifting from voluntary reporting to reporting in accordance with requirements mandated by their local jurisdictions. Sustainability matters may indicate how an organization has impacted the environment, people, and economy, and vice versa. These matters may also have impacts on financial reporting, for example, asset impairments or restructuring efforts necessary to mitigate climate-related risk.

Here in Hong Kong, the topic of sustainability reporting including ESG and climate-related disclosures have been on the agendas of both the Hong Kong Securities and Futures Commission and Hong Kong Stock Exchange. The investing community, those in charge of governance and management are also engaging in initiatives to promote both awareness of the issues in the public interest, and improve compliance with required disclosures and changes to a company's operating strategy to address the sustainability-related impacts.

As demand for assurance on sustainability reporting grows, there is an urgent need for globally accepted international sustainability assurance standards that can be used by all assurance professionals. While International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ISAE 3410 *Assurance Engagements on Greenhouse Gas Statement*s as issued by the International Auditing and Assurance Standards Board (IAASB) provide a robust foundation for such engagements, and are currently widely used by audit practitioners, the IAASB's strategic focus needs to be on:

a) Being the globally recognized standard setter for assurance on sustainability reporting. In this vein, it is essential that the IAASB is integrated in discussions at global and jurisdictional levels, to reinforce the IAASB's rigorous due process that is characterized by accountability, inclusiveness, transparency, public consultation and public oversight, and the quality of its auditing and assurance standards.
b) Focused actions to respond to global needs for specific assurance standards on sustainability reporting, which build upon existing IAASB standards and guidance in a priority manner.

In delivering its work plan, the IAASB is currently undertaking information gathering and research activities to:

- Understand the topics (underlying subject matter), aspects about the topics (aspects of the underlying subject matter), mechanism for reporting (the subject matter information), and reporting standards (criteria) underlying sustainability reporting.
- Understand the challenges in performing assurance engagements on sustainability reporting, and the urgency and priority of these challenges.
- Identify and prioritize possible actions the IAASB should take in addressing assurance on sustainability reporting.

The IAASB's work will build upon its existing standards and guidance that already deal with this topic more broadly.

In September, the board will consider an outline of the project plan, a draft structure of the standard, requirements to be brought in from ISAE 3000 (Revised) and ISAE 3410 and, time permitting, material from its Extended External Reporting Guidance to be incorporated as requirements in the standard. The IAASB's key stakeholders outreach will be ongoing as we continue to focus on developing a set of globally accepted international sustainability assurance standards. The target is to have the project proposal approved at the December meeting.

The IAASB have heard practitioners calling for more guidance on assurance of sustainability information to address a number of related topics. However, it is important for the reporting standards to continue to develop under rigorous due process and finalized with proper public oversight. It is encouraging to see the significant developments being made by the International Sustainability Standards Board, the European Commission's Corporate Sustainability Reporting Directive and the United States Securities and Exchange Commission's Proposed Rules to Enhance and Standardize Climate-Related Disclosures for Investors. The assurance standards need to be reporting framework neutral, similar to the IAASB's International Standards on Auditing. Therefore, it is important that the assurance standards are capable of application to the reporting standards without any gaps.

The development of a suite of International Sustainability Assurance Standards (ISAS) requires time and the proper due process needs to be followed. The desired output is a high-quality suite of standards that are able to be applied by practitioners consistently across the globe to achieve high quality sustainability assurance engagements. The progress to develop ISAS is an evolution process not a revolution process. In the evolution process, standards will be developed, updated and continually improved to reflect changes in reporting standards, address practical issues and meet public interest needs. Stakeholders such as national standard-setters, assurance providers, users of information and regulators all have key roles to play.

Hong Kong is in a unique position as a global financial hub built on an established capital market infrastructure and supported by effective regulatory oversight and a mature accounting profession. The IAASB looks forward to engaging with stakeholders in Hong Kong as it embarks on the evolution of high-quality assurance standards in support of high-quality sustainability reporting in the public interest.

FIVE QUESTIONS FOR PAIB

Thomas Mak CPA

Group Supply Chain Management and Sustainability Director, Jardine Restaurant Group on the approach to making supply chains more sustainable, and how businesses can benefit from accountants and supply chain professionals collaborating

What are the three biggest lessons in your career so far? Firstly, people are always the core of every business. No matter how good the intention or objective of an initiative is, if your team or stakeholders do not genuinely agree with it, the results of that initiative will not be good. Secondly, how you communicate with people, in terms of tone, approach or medium, is the key to achieving your desired outcome. Lastly, always exercise professional scepticism as an accountant. For example, during the stage when businesses often re-examine a signed contract, it's important to play devil's advocate to ensure key arrangements such as the break or exit clause are crystal clear.

What attracted you to the role? With the group's presence across multiple markets in Asia, it is challenging to connect the dots within the supply chain. The efforts made not only impact the business financially, but also socially and environmentally impact the communities in which we all work and live. The process of building a sustainable and resilient supply chain is like building something with Lego blocks, which come in different shapes and sizes like the different stakeholders along the value chain, and I find the process exciting. By looking after supply chain and sustainability at the same time as part of my role, I'm able to make a significant impact on the day-to-day business for the company's sustainable development.

In what ways has your CPA qualification helped you in your career? Being sensitive to numbers has definitely helped in my career. My CPA qualification and background has given me a solid foundation to rationalize numbers. The debit and credit double-entry system logic always helps to put things into balance. Aside from the hard skills, the qualification helps when it comes to mindset and discipline. Being detail-minded and prudent when taking risks has helped me to make the best decisions throughout my career.

In what ways can accountants and supply chain professionals collaborate to bring about greater good for society? From the sustainability viewpoint, operational data is critical to measuring and tracking development under environmental, social and governance reporting, and that opens up an opportunity for the two teams to work together. Sustainability is a big topic, and it is a new economic model that is transforming the linear value chain to a circularity model. This change costs investment and time, and requires blending the number skills that accountants have with the knowlege of supply chain professionals, for example on flow of materials optimization, to financially and sustainably achieve the United Nations' Sustainable Development Goals.

How have you managed the challenges that supply chain teams currently face? First and foremost, by staying positive! A positive and can-do mindset is the key to embracing all types of challenges. Also, it's important to work closely with suppliers, and to genuinely treat them as your partners. With such rapid changes, close collaboration helps to weather the storm. Lastly, stay agile and creative. As a large food and beverage group, there are a lot of standard operating procedures and practices from the past. I constantly challenge the status quo and think of new ways to resolve issues by applying design thinking – it can be a tough process, but it provides us with solutions when traditional methods are not applicable.

FIVE QUESTIONS FOR PAIP

Yuka Shigetomi FCPA (practising)

Partner, Greater China Assurance Leader for Japan Business Services (JBS), Ernst & Young, Hong Kong (EY Hong Kong), serves as a key link between companies in Japan and Hong Kong. She shares how the role of assurance has evolved, and why she calls Hong Kong home

What are the three biggest lessons in your career so far? Firstly, be unique. As a qualified CPA in Japan as well as in Hong Kong, I have been able to assist both Japanese companies to expand their businesses in Hong Kong and Hong Kong companies to expand their businesses in Japan, which I believe is quite an unusual skill set. Secondly, think in the long term when it comes to your career. As a mother of two children, some work compromises were necessary, and more so when my children were small. I also had to be patient, and to take things one step at a time. I'm glad that everything eventually worked well. Finally, it is the importance of being in the right place at the right time. I was lucky to arrive in Hong Kong in 1998 when the Mainland's economy was expanding significantly. I was able to expand JBS as Japanese investment in Hong Kong and Mainland China increased in line with the Mainland's growth.

What do you like most about specializing in assurance? As an assurance partner, I enjoy being a central point of contact for clients and supporting them multidimensionally by working with other specialists within EY. Japanese companies, in particular, tend to change management every few years because of job rotation, so I enjoy helping them to quickly settle in Hong Kong and supporting them to understand the city's cultural and business practices. This helps build a strong working relationship.

How have you seen the role of assurance evolve in recent years? I have seen significant developments in assurance recently. I believe the most significant one is the adoption of data-driven audits, which help to improve the user experience for our clients and colleagues, and enhance the quality of audits. Another development is the demand for assurance engagements on sustainability, and environmental, social and governance reporting in order to add value because it creates trust in the reporting. I feel that there has never been a more exciting time to be an assurance partner.

What made you move to Hong Kong and what made you stay? After graduating from university, I joined Ernst & Young ShinNihon LLC. (EY Japan) to work as an auditor, and was seconded to EY Hong Kong in 1998. I was the first secondee sent by EY Japan to develop the firm's JBS in Hong Kong and Mainland China. I got married here and have two children. Hong Kong is a cosmopolitan metropolis. Its people are flexible in terms of how they respond to business issues, and it is a friendly city for foreigners. One thing many people might take for granted is how easy it is to find domestic helpers to help with housework and raising children – I would have never been able to have this kind of support in Japan, which has allowed me to both develop my career and raise a family.

What is the biggest challenge Japanese companies in Hong Kong are facing currently? At the top of the list is the compulsory quarantine requirement. Also, the restrictions on travel to the Mainland make it difficult for Japanese management in Hong Kong to manage subsidiaries in Mainland China, which calls into question the need for offices in Hong Kong. In order to support their communication with Japan headquarters and subsidiaries in Mainland China, I work closely with EY offices in Mainland China and Japan, and hold joint online meetings and seminars with local offices and headquarters to facilitate the sharing of current business issues and opportunities.

Everybody in business wants to celebrate success. With a member of the Hong Kong Institute of CPAs on your team, you'll be one step closer to popping the champagne cork.

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Things that every accountant should know

What to expect from the e-series that covers the foundation of all the important things every accountant should know about corporate and strategic finance

M. K. Lai is the Principal Consultant of Executive Training and Management Consultancy Company Limited. He has been offering quality training and consulting services to a wide variety of financial institutions, academic organizations and professional bodies for more than 20 years. He obtained a doctorate degree in finance from the London Business School, and is a CFA charterholder.

Nowadays, accountants should understand the many different financial issues a company may face and how various financial markets operate in order to survive in today's extremely competitive business environment. They should also understand that accounting is not only just about numbers, but also about human behaviour and actions. In particular, they have to understand how a director, a manager, a shareholder or an investor makes financial decisions in reality, which may be substantially different from what the textbook financial theories tell them.

In other words, the "psychological" approach provides an alternative explanation to how an individual behaves and makes decisions in real-life financial situations versus the "rational" approach, where human beings are simply "calculating machines." The six released "Every Accountant Should Know" e-series courses will essentially help accountants to gain an all-round understanding behind how people think and make rational and sometimes impulsive decisions.

The courses provide relevant knowledge on various topics related to corporate and strategic finance. For example, the course on "Personal Risk Profiling" can help one to identify risks, while the course on "Investment Biases" looks at the underlying reasons why people do not make the best investment choices. The course on "Behavioural Corporate Finance" explains the reasons why a director, a manager, a shareholder or an investor behaves in a certain manner or takes a certain course of action in a corporate setting. For instance, people may be subjected to groupthink and polarization when they make a collective decision in a company meeting compared to when they make decisions on their own. All in all, this alternative viewpoint on finance will provide accountants with more insight and prove useful when they interact with their colleagues and clients on a day-to-day basis.

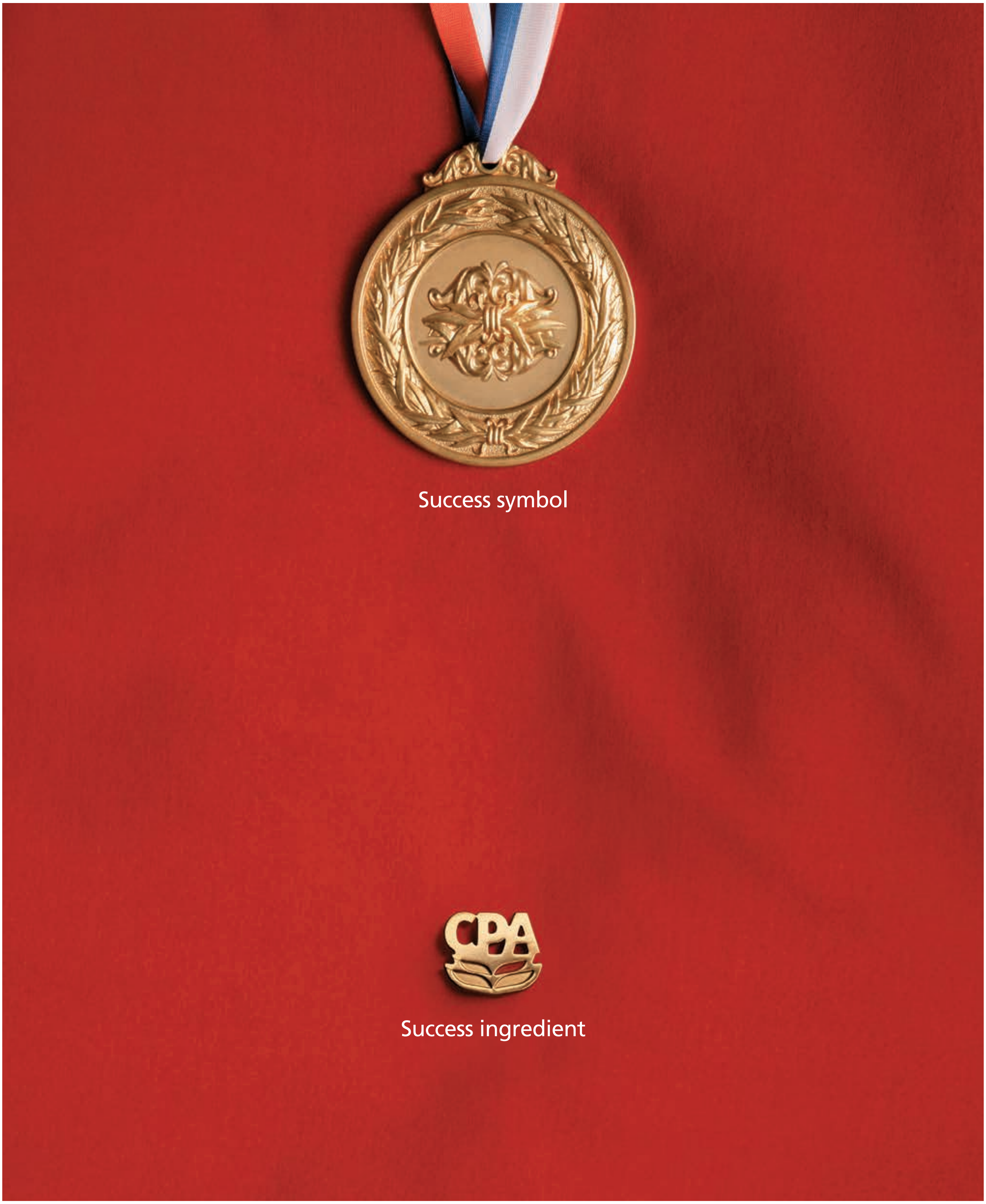
Another key issue that accountants should understand is how financial products are evaluated and how financial markets operate. The "Bond and Stock Indicators" course discusses and interprets important indicators that accountants are likely to encounter in evaluating the performance of a bond or a stock. For example, indicators such as duration, convexity and PV01 are all used by finance practitioners to measure interest rate risk, which is a key risk factor in the bond market. The course will also examine how the basic and diluted earnings per share of a company are actually measured in the annual report. Accountants may find that it is not as simple as just dividing the total earnings by the number of shares outstanding.

The "Key Economic Indicators" course discusses the key economic indicators and how financial markets typically react to the trends of these indicators. For example, it examines how the fiscal and monetary indicators can show the intention of the government to influence the economic conditions through fiscal and monetary policies. The course will also discuss why a stock market can still perform well when the economy performs poorly under the COVID-19 pandemic.

The "Hong Kong and PRC Financial Regulators" course unveils the relatively complex regulatory structure of the financial markets in both Hong Kong and Mainland China. For example, it will discuss the recently established China Banking and Insurance Regulatory Commission, which was set up in April 2018 by a merger of the China Banking Regulatory Commission and the China Insurance Regulatory Commission.

Also, stay tuned for the forthcoming "Issues in Foreign Exchange Market" course, which will discuss the actual operations of the foreign exchange market, the largest financial market in the world. For example, it will discuss the difference between onshore renminbi (denoted by CNY) and offshore renminbi (denoted by CNH). It will also examine the short-term and long-term drivers of an exchange rate.

In a nutshell, the "Every Accountant Should Know" e-series courses seek to help accountants understand that there are many behavioural factors and hidden agendas behind the financial decisions made by a director, a manager, a shareholder or an investor. It will also help accountants to understand the important indicators, operational issues and the regulatory framework in various financial markets. Above all, the courses will help accountants to consider financial issues from different perspectives and across a multi-discipline setting, which will facilitate their decision-making process in a more efficient and all-round manner at work. These courses aim to lay a solid foundation and ensure accountants are in a better position to understand the more advanced issues in different aspects of the financial decision-making process and the operations of financial markets as a whole.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Sustainability reporting assurance

An overview of the Institute's position for effective sustainability reporting assurance

The last two years have seen an increasing level of activity and discussion around sustainability reporting by companies, and especially on the development of comprehensive and authoritative standards on sustainability reporting. Recently, there have been three important consultations on sustainability reporting. The International Financial Reporting Standards Foundation consulted on the first two draft standards developed by the International Sustainability Standards Board; in the European Union there was a consultation on the proposed Corporate Sustainability Reporting Directive; and in the United States, the Securities and Exchange Commission published proposals for rules to require registrants to provide climate-related information in their annual reports and registration statements.

Although these consultations were focused on corporate sustainability reporting, two of them also raised the issue of assurance on sustainability reporting, and this subject has been a notable feature of much of the engagement activities and discussions around all three consultations.

The Institute has consistently advocated that robust independent assurance adds value to all aspects of corporate reporting, including sustainability reporting. Independent assurance provides confidence to users of reported information, including boards, investors and rating agencies and indices. In December 2020, the Institute issued Auditing and Assurance Technical Bulletin (AATB) 5, which provides practical non-authoritative guidance for assurance practitioners that is specifically referenced to the enhanced sustainability reporting guidelines published by the Hong Kong Stock Exchange that became effective in 2021. This guidance was drafted based on the existing Hong Kong Standard on Assurance Engagements 3000 and utilized what was then work in progress by the International Auditing and Assurance Standards Board (IAASB). AATB 5 was subsequently updated in August 2021 to align with the now published IAASB guidance on extended external reporting and further updated in May 2022 as a result of the new and revised quality management standards that will come into effect on 15 December 2022.

In December 2021, as part of its ongoing advocacy and research activities, the Institute published a report providing a snapshot of where Hong Kong listed companies stand with regard to environmental, social and governance assurance with reference to 31 December 2020 year end reports. A summary of the findings and recommendations were published in the April 2022 issue of *A Plus*.

Also in 2021, the International Federation of Accountants (IFAC), the American Institute of CPAs and the Chartered Institute of Management Accountants carried out a global benchmarking study titled *The State of Play in Sustainability Assurance*, in partnership with Audit Analytics. The aim of the study was to better understand the extent to which companies are reporting and obtaining assurance over their sustainability disclosures, which assurance standards are being used, and which organizations are providing the assurance service. Significant differences in practices across different jurisdictions show a situation that is still evolving and influenced very much by local regulatory requirements.

The Institute has stated its support for the IFAC's *Vision for High-Quality Assurance of Sustainability Information* published in December 2021. We agree with the assertion that assurance enhances the credibility of reporting and that authorities and regulators should maximize trust and confidence in sustainability disclosures by requiring high-quality assurance.

Addressing sustainability in the context of their roles as standard setters for the international accounting profession is a high priority for the IAASB and the International Ethics Standards Board for Accountants (IESBA) and both boards have set up working groups to focus on the topic and its implication for professional standards and conduct. The IAASB has already committed in its work plan for 2022-23 to a project for developing auditing and assurance standards that address sustainability reporting and has a dedicated webpage which brings together all content the IAASB has available regarding assurance on sustainability reporting and other forms of extended external reporting. The Institute has good connections and regular engagement with both IAASB and IESBA and will closely follow their work at the international level, with the intention of bringing relevant developments and knowledge to Hong Kong for the benefit of all market participants.

Beyond the accounting profession, the International Organization of Securities Commissions has been a prominent advocate for the importance of assurance to support the credibility and value of sustainability reporting, echoing the call from many significant institutional investors. This position has also been taken in Hong Kong by the Securities and Futures Commission .

For board members, assurance on sustainability information is important. Sustainability reports should include board commentary on which sustainability information and policies are considered to be material and how the board is satisfied as to the reliability of the more material items, and identify which items have been assured, the level of assurance and the assurance provider.

The prioritization of development and implementation of sustainability reporting standards for Hong Kong is understandable but the importance of assurance should not be overlooked. Initial considerations and development of proposals for assurance can go ahead even if regulatory and market requirements and standards for assurance come after the introduction of reporting requirements. We believe that the model of assurance for financial reporting has important features, including the need for assurance providers to adhere to independence, ethical and competence standards, that add value and should be included in assurance requirements on sustainability reporting. The Institute would support requirements for assurance of sustainability reports and will continue to provide necessary support and development opportunities for its members to be recognized as trusted assurance providers.

The Institute believes that independent assurance is a critical element of providing reliable decision useful information for use by boards, investors, ratings agencies and other parties.

This article was contributed by Chris Joy FCPA, Executive Director, Standards and Regulation of the Institute.

TECHNICAL NEWS

The latest standards and technical developments

Members' handbook
Due to system limitations, the offline version of the members' handbook is updated only up to update no. 272 (March 2022) and does not reflect any subsequent updates. The offline version will be decommissioned in Q4 2022.

Please refer to the online members' handbook for the latest version. The online version can also be downloaded for offline use.

Update no. 275 includes:

- Revisions to Hong Kong Standard on Auditing (HKSA) 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) and Conforming and Consequential Amendments to Other Hong Kong Standards Arising from HKSA 600 (Revised)* will be effective for audits of group financial statements for periods beginning on or after 15 December 2023.
- Withdrawal of Auditing Guideline 3.283 *Guidance for Internal Auditors* on 30 June 2022.

Financial reporting

Andreas Barckow delivers IFRS Foundation Conference keynote speech
Andreas Barckow, Chair of the International Accounting Standards Board (IASB), delivered the keynote speech at the International Financial Reporting Standard (IFRS) Foundation Conference 2022. In his speech, he set out the IASB's decisions on its work plan and the rationale for these decisions and shared some important recent developments of the IASB.

IFRS Foundation Conference 2022: a summary
The IFRS Foundation published a summary of the various discussions held at the conference. The event, which was held across two days, focused on sustainability and accounting matters respectively.

Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 – Conclusion
The IASB has published a Project Report and Feedback Statement concluding its Post-implementation Review (PIR) of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. Feedback from the PIR shows that the requirements set out in the standards are working as intended and that application of the requirements did not give rise to unexpected costs.

IASB June 2022 podcast and update
The IASB podcast, with its chair and executive technical director highlighting the projects discussed during its June meeting, and a summary of the June meeting, are now available.

IFRS Interpretations Committee June 2022 Update
The IFRS Interpretations Committee Update provides a summary of discussions at its June meeting.

Auditing and assurance

Invitations to comment
The Institute is seeking comments on the following:

- The exposure draft *Circular on Reporting for Certification of Funds under Schedule 16D to the Inland Revenue Ordinance (Cap. 112)* by 13 August. It provides guidance to practising members when undertaking engagements to report on a fund's compliance with *Guideline on Certification of Funds Issued by the Monetary Authority under Schedule 16D to the Inland Revenue Ordinance (Cap. 112).*
- The International Auditing and Assurance Standards Board (IAASB) released an exposure draft on proposed narrow scope amendments to International Standard on Auditing (ISA) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* and ISA 260 (Revised) *Communication with Those Charged with Governance*. The proposed amendments will help operationalize recently approved changes to the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) related to listed and public interest entities. The changes to the Code require firms to publicly disclose when the independence requirements for public interest entities have been applied in an audit of financial statements. Send your comments on on the IAASB exposure draft on the proposed narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) to the Institute by 4 September.

Financial Reporting Council Annual Inspection Report
The Financial Reporting Council (FRC) in Hong Kong issued the *2021 Annual Inspection Report* which presents the full year results of their inspections of listed entity audits completed in 2021. The inspection report contains useful insights and significant recommendations that are highly important to the sustainable development and continuous

improvement of the accounting profession.

The Institute's Auditing and Assurance Standards Committee meeting minutes
Minutes of the 400th meeting is now available.

IAASB digital technology market scan
The fourth market scan from the IAASB Disruptive Technology team explores Natural Language Processing, a technology that has applications within accessing information & data and within assessing internal controls. This technology has the potential to impact many areas of the audit, enhancing the way auditors work and providing opportunities for greater insight.

Previous digital technology market scans released by the IAASB's Disruptive Technology team covered topics on data standardization, application programming interface access and artificial intelligence.

IAASB June board meeting
The meeting summary of the IAASB June board meeting is now available.

Assurance in the digital age
In this article, the IAASB recognizes the ever-growing availability of data combined with emerging technologies as one of its most relevant strategic drivers influencing auditing and assurance standards and future activities. In its ongoing projects relating to audit evidence, fraud, and going concern, the IAASB will account for the impact of new technologies, which will include considering whether the use of the technology will become the norm in fulfilling audit and assurance requirements and how that will impact the thinking on the scalability of the auditing and assurance standards.

IAASB eNews
The IAASB July 2022 eNews is now available. It highlights various activities going on in and around the IAASB.

IFAC panel discussion on the IAASB's new quality management standards
The International Federation of Accountants (IFAC) in collaboration with the Forum of Firms held two video panel discussions providing an overview of International Standard on Quality Management (ISQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.* They discussed how firms have been planning for the implementation, shared practical examples, and tips and suggested good practices.

The fast future with IFAC
The new podcast series by the IFAC features innovative small- and medium-sized practices (SMPs) sharing how they're adapting to the rapidly changing global economy. The first three episodes are about technology, the COVID pandemic, advisory services, and recruiting and hiring; value pricing, subscription models, client relationships, and attracting and retaining talent; and technology investments, cybersecurity, mental health, and workplace culture.

For more thought leadership, articles, case studies, and other resources – including the road map to the future for SMPs – visit the IFAC's dedicated practice transformation page.

Professional judgement guidance for auditors
The FRC in the United Kingdom published a non-prescriptive guidance on the effective exercise of professional judgement by auditors. It comprises a framework for making professional judgements and a series of illustrative examples showing the exercise of professional judgement in practice.

ICAEW audit and assurance resources
The Institute of Chartered Accountants in England and Wales (ICAEW) has the following resources that may be of interest to members:

- ISQM 1: Use of resources obtained from service providers highlights quality management requirements and the range of information auditors may need from providers to identify quality risks that may arise from using their services.
- The podcast, *What are the issues with tackling fraud?* highlights the common types of fraud, the challenges of trying to combat it, the red flags that accountants might come across, and how professionals should respond.
- Resources to help audit firms prepare for the new and revised quality management standards under ISQM 1, ISQM 2 and ISA 220 (Revised).
- Summary of links to technical help, webinars, publications and events to all stages of an audit.
- Resources and support tools on auditing accounting estimates under ISA 540 (Revised), such as webcasts and articles with practical illustrations.

Institute members can subscribe to ICAEW's International Standards platform for free to access a wide range of resources on auditing and ethics.

Ethics

Institute submission
The Institute has submitted its comment letter on IESBA exposure draft *Proposed Technology-related Revisions to the Code.*

The Institute's Ethics Committee meeting minutes
Minutes of the 250th meeting is now available.

Responding to NOCLAR
Professional accountants should take a proactive role in responding to non-compliance with laws and regulations (NOCLAR). The Institute has published a video highlighting the relevant NOCLAR requirements in the Code of Ethics for Professional Accountants. A technical article previously published in *A Plus* also discussed the NOCLAR requirements and response framework that guides professional accountants in responding to NOCLAR or suspected NOCLAR.

HKICPA resource centre
Access resources and publications at the Institute's revamped Resource Centre to Code of Ethics for Professional Accountants which will keep you updated on the latest ethics pronouncements.

IESBA staff Q&A: Revised non-assurance services provisions of the Code
This questions and answers (Q&A) publication by the IESBA explain key revisions to the non-assurance services (NAS) provisions of the Code. It complements the basis for conclusions for the final NAS pronouncement and is intended to assist stakeholders to better understand the new requirements and guidance which are effective for audits of financial statements for periods beginning on or after 15 December 2022.

Sustainability

Erkki Liikanen delivers opening remarks at the IFRS Foundation Conference
Erkki Liikanen, Chair of the IFRS Foundation Trustees, delivered his opening remarks at the IFRS Foundation Conference 2022. He reflected on the changes that have happened since the International Sustainability Standards Board (ISSB) was created in 2021. He also explained the rationale for the formation of the ISSB.

Consolidation with VRF expected to complete 1 August
The IFRS Foundation Trustees and Value Reporting Foundation (VRF) Board have announced an updated expected target date for the consolidation of the VRF into the IFRS Foundation as 1 August, to finalize the remaining procedures necessary to complete the legal consolidation.

IFRS Foundation launches Montreal ISSB centre supported by key actions
The IFRS Foundation announced a package of key actions, including an agreement to obtain the financial support of the Government of Canada and the Government of Quebec, to help fully establish the ISSB within the Canadian sustainability ecosystem. This follows the announcement at the November 2021 COP26 climate conference that the ISSB would establish a Montreal centre as part of a multilocation approach.

Four further members appointed to the ISSB
The IFRS Foundation Trustees have appointed Jeffrey Hales and Michael Jantzi, Tae-Young Paik and Elizabeth Seeger as members of the ISSB, effective July 2022. Their appointments make the ISSB quorate.

ISSB and GRI provide an update on ongoing collaboration
Technical representatives from the ISSB and the Global Reporting Initiative (GRI) met in May to begin work on delivering the agreed memorandum of understanding (MoU).

The MoU, announced in March, commits the two organizations to seeking to coordinate work programmes and standard-setting activities. The IFRS Foundation and GRI recognize the need to further harmonize the sustainability reporting landscape at an international level. IFRS Sustainability Disclosure Standards and GRI Standards can be viewed as two interconnected reporting pillars that address distinct perspectives, which can together form a comprehensive corporate reporting regime for the disclosure of sustainability information.

***Navigating the Reporting Landscape* guide of the A4S**
The Accounting for Sustainability (A4S) has updated its *Navigating the Reporting Landscape* guide, which offers a brief introduction to the changing corporate reporting landscape and summarizes the latest developments in sustainability reporting. Please refer to its website for the updated edition.

Taxation

Announcements by the Inland Revenue Department (IRD)
Members may wish to be aware of the following matters:
- Government welcomes passage of tax deduction for domestic rent.
- IRD waives surcharges for payment of tax by instalments for businesses and individuals in need.
- IRD notice – Tax obligations of property owners.
- IRD notice – Tax obligations of taxpayers and employers.
- Stock borrowing relief – Filing of return of stock borrowing transactions.
- Annual Report on Performance Pledge 2021-22.
- Fraudulent emails purportedly issued by IRD.
- Stamp Duty statistics.

Legislation and other initiatives

Announcements by the government
Members may wish to be aware of the following matters:
- Hong Kong greenhouse gas emission inventory for 2020 released.
- New-term Executive Council membership announced.
- Principal officials of sixth-term HKSAR government appointed.
- Senior appointments.
- Appointment of under secretaries and political assistants.

- President Xi meets with new Chief Executive and members of executive, legislature and judiciary.
- Chief Executive Officer to leave the Securities and Futures Commission.
- Government welcomes passage of Professional Accountants (Amendment) Bill 2022.
- Secretary for Financial Services and the Treasury's keynote speech at "EU – Hong Kong Engagement Forum: Building a Fair Tax Environment through International Cooperation."
- Hong Kong's balance of payments and international investment position statistics for first quarter of 2022.
- Chain volume measures of gross domestic product by economic activity for the first quarter of 2022.
- Transport Advisory Committee briefed on proposed principles of congestion charging and takeover arrangements of Western Harbour Crossing as well as e-licensing initiatives of Transport Department.
- LCQ4: Reforming Growth Enterprise Market.
- LCQ11: Hong Kong's financial risk management.
- Land Registry releases statistics for first half of 2022.
- Government extends existing social distancing measures.
- Government updates list of places of recognized vaccination records.
- Government reminds public of registration timing of 2022 (Phase II) Consumption Voucher Scheme.

AML notices

Gazettal of Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022

On 24 June, the Hong Kong government published in the Gazette the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 (the Bill) for enhancing Hong Kong's regulatory regime for combating money laundering and terrorist financing.

In brief, the Bill seeks to introduce a licensing regime for virtual asset service providers and a registration regime for dealers in precious metals and stones. Further, a number of miscellaneous and technical issues under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615), which were identified in the mutual evaluation by the Financial Action Task Force (FATF) and other contexts, are being addressed. The Bill will be introduced into the Legislative Council for first reading on 6 July.

The Institute, in January 2021, issued a submission in response to the consultation paper on these proposals. Please refer to the Institute's submission for details.

Latest issue of Hong Kong's Money Laundering and Terrorist Financing Risk Assessment Report published

On 8 July, the Hong Kong government published the latest issue of Hong Kong's Money Laundering and Terrorist Financing (ML/TF) Risk Assessment Report.

The report is prepared based on the requirements of the FATF. It examines the ML/TF threats and vulnerabilities facing various sectors in Hong Kong and the city as a whole in recent years, as well as assessing the risk of proliferation financing faced by Hong Kong for the first time. FATF members' jurisdictional risk assessment reports are important sources of information for the FATF's mutual evaluation of the relevant jurisdictions. The Institute worked closely with Narcotics Division of the Security Bureau on updating this report for the accounting profession. Please refer to the press release for details.

FATF publication on high-risk and other monitored jurisdictions

The FATF published a statement on 17 June regarding high risk jurisdictions subject to a call for action, calling on its members and all jurisdictions to continue to apply specific measures and actions on Iran and the Democratic People's Republic of Korea.

The FATF also issued a notice on jurisdictions under increased monitoring, referring to other jurisdictions that have been identified to have strategic anti-money laundering/counter-terrorist strategic deficiencies and that are working with the FATF to address these deficiencies. Following recent reviews, Malta is no longer subject to increased monitoring and updated statements are provided for some of the remaining 22 jurisdictions on the list. In addition, Gibraltar has been newly included on the list.

Sanctions update

The List of individuals and entities published under section 31 of the United Nations Sanctions (Democratic People's Republic of Korea) Regulation (Cap. 537AE), was updated on 1 July.

For the current lists of terrorists, terrorist associates and relevant persons/entities under United Nations sanctions, members should refer regularly to the Institute's AML webpage. Other useful documents and guidance can also be found on the same page.

Please refer to the full versions of Technical News on the Institute's website: www.hkicpa.org.hk

Alex Yuen CPA (practising), Partner of Alex Yuen & Co., and Convenor of the Hong Kong Institute of CPAs' Sailing Interest Group, is an avid dinghy sailor and windsurfer.

RIDING THE WIND

Sailing is one sport that puts enthusiasts at the mercy of the wind, waves and water. Members of the Institute's Sailing Interest Group tell Thomas Lo what makes sailing both exciting and relaxing, and about their greatest memories at sea

In the middle of the sea, one boat was being relentlessly pounded by howling winds and raging waves. A sudden storm in Sai Kung had almost tipped over a crew of seven sailors, forcing them to quickly adjust the angle of the sail and stand at different spots of the dinghy to keep the raft balanced. In the end, they parked their vessel on a deserted island, sought shelter, and waited for the storm to pass.

Alex Yuen CPA (practising), Partner of Alex Yuen & Co., and Convenor of the Hong Kong Institute of CPAs' Sailing Interest Group, was one of the sailors. "Weather reports are just there for reference – and that experience was an important lesson," he says. "We waited for an hour and a half until the storm passed. I am just glad that I can utilize my past experiences and what I have learned from them."

The terrifying experience also taught him a valuable lesson on the importance of preparation. "I learned that you can never prepare enough. You can't anticipate all possibilities and threats, but preparation will minimize the problems you face or at least help you to be calm when you encounter them," Yuen adds. Before heading out to sea, Yuen now often studies the wind direction and weather two to four days ahead to

Doris Leung CPA (practising), Partner of EY, attained her sailing certificate in 2016.

better understand the situation.

Yuen is an experienced dinghy sailor. Like other forms of sailing, such as windsurfing, keelboat sailing and yachting, dinghy sailing relies on riding the wind. But there are major differences in the equipment used, setting of vessels and the number of participants. To sail a boat in Hong Kong waters, sailors must first take lessons from the Hong Kong Leisure and Cultural Services Department (LCSD) and be certified by the Hong Kong Sailing Federation (HKSF). The Institute's Sailing Interest Group cooperates with the LCSD and organizes elementary sailing courses to help interested members to gain certificates.

Yuen has always had an affinity for water sports. He was part of the swimming team in secondary school and university, and in 1996, he attained his windsurfing certificate. After he graduated, his irregular working hours made it difficult for him to find a time for sports that he and his friends could agree on. Undeterred, he chose to practice windsurfing by himself until he changed his job in 2005. "Working more regular hours made it easier to ask friends out. I also wanted to learn another water sport, so sailing became my next target. After years of sailing, I found it to be the best ice-breaking activity. Unlike windsurfing, dinghy sailing can be a two-person endeavour. Both sailors have to work closely to sail far, and it's a great way to bond," Yuen explains.

That same year, while he was in the Institute's Qualification Programme, Yuen noticed the Institute had a Sailing Interest Group. He decided to join and meet like-minded individuals.

His hobbies offer him a choice, he says. "If I want to enjoy the speed of a motorcycle on water, I will windsurf," Yuen says. "But if I want to spend time with my friends, I will arrange an island trip and bring my friends to the islands using a dinghy and have lunch there. It is liberating."

"You can't anticipate all possibilities and threats, but preparation will minimize the problems you face or at least help you to be calm when you encounter them."

In June, driven by his passion for sailing and good relationship with other group members, Yuen took on the responsibility of being the Convenor of the Sailing Interest Group after the previous convenor stepped down. He schedules elementary and advanced sailing courses with the LCSD and cooperates with different sailing interest groups in Hong Kong to organize competitions and other leisure activities. "It is always fun to have sailing competitions with other passionate people. I love the sport and I want to promote it as much as possible," he says. "I would like the interest group to be a place for members to not just develop new friendships, but to also get advice on a professional level or even lead to business opportunities."

Making the right decisions

An email from the Sailing Interest Group featuring some happy faces convinced Doris Leung CPA (practising), Partner of EY, to give sailing a try. "They looked so happy and relaxed, and I wanted to be like them. So I joined – and it is one of the best decisions I've ever made," she says.

As an auditor, Leung often faces tight deadlines and demanding tasks. Before she started sailing, she normally went swimming, hiking and biking to destress. "None of them had the same effect on me as sailing. It is the most relaxing activity I have ever done," Leung adds. "When you watch the sun setting on the horizon, it is like a painting, but you get to physically be a part of it," she says, adding that she usually goes to Royal Hong Kong Yacht Club, Hebe Haven Yacht Club and The Jockey Club Wong Shek Water Sports Centre in Sai Kung, to recharge.

Sailors usually do not have much control over where to sail. Instead, the best places to sail are indicated by seasonal winds. Chong Hing Water Sports Centre, near Sai Kung's High Island Reservoir, for example, is a popular spot for sailing during the summer due to Hong Kong's southerly winds, while Stanley, at the southern part of Hong Kong island, is the best place to sail during autumn and winter due to the winds from the north and east.

Leung says she sails once a month to keep her senses and skills sharp, noting how she prefers sailing during the summer months. "I practice my basic techniques every summer," she explains. Sailing in winter or autumn is commonly considered easier than sailing in summer as the winds tend to be weaker. "During summer, you will have to make quick and precise decisions to ride the wind and sail far, otherwise you could be stuck at sea," Leung adds.

Since obtaining elementary sailing certificates from the HKSF in 2016, Leung has participated in various competitions, including the Around the Island Races held by the Royal Hong Kong Yacht Club every November, except for the 2021 race, where she was on a business trip.

In 2019, the Institute's team came in second place out of 100 teams in that competition, and was the first runner-up in its own class and the fifth in the overall race. "Achieving that is definitely the result of team effort and everyone making the right decisions consecutively. I love working in a group where everyone's role is clear, and everyone contributes. I believe in the power of teamwork," Leung explains. "The sea is full of uncertainty. Random winds like gusts can tip your vessel. Or an air vortex, which can appear without warning, can draw you into its centre and trap you in one place for a period of time until it goes away. The whole team has to decide whether to avoid or use it. You can even turn bad situations into ones that work for you. It depends on how you use them to your advantage, which is the same when it comes to making life decisions."

"You will have to make quick and precise decisions to ride the wind and sail far, otherwise you could be stuck at sea."

(Second from left) Leung usually practices sailing at Royal Hong Kong Yacht Club, Hebe Haven Yacht Club and The Jockey Club Wong Shek Water Sports Centre in Sai Kung.

Frederick Wong FCPA (practising), Sole Proprietor of Frederick C.Y. Wong & Company, is a passionate sailor and windsurfer.

Embracing changes

In 2008, during a gathering at the Institute, Frederick Wong FCPA (practising), Sole Proprietor of Frederick C.Y. Wong & Company, and a former convenor of the Sailing Interest Group, discussed the fun they had just had at a Dragon Boat event by the Institute. Suddenly – despite not knowing much about sailing – they both came up with the idea of forming the Sailing Interest Group.

Wong got his windsurfing certificate at a young age and was also a water sports fan. However, he often found windsurfing too intense. So he joined an elementary sailing course with other founding members to explore a different water sport. "Compared to windsurfing, sailing suits me more, but catching the wind is still difficult and requires experience. It takes consistent practice to keep your sense of the wind sharp. Right after attaining our certificates, we gathered a team and went sailing on our own," Wong adds.

They gathered 20 people and organized the first trip of the Sailing Interest Group, which was formed in 2008. "We departed from the Wong Shek Pier at the edge of Sai Kung West Country Park, and sailed a yacht to Ko Lau Wan at the tip of the Sai Kung East Country Park. We went there solely for their local cuisine, the cuttlefish balls, and we had a great time there," Wong explains. "I still remember the quietness of the sea and how the wind touched my face while we were sailing on a yacht. It can be intoxicating, and ever since that trip, all of us have been hungry for opportunity to sail. It is never difficult to gather members and go on a trip."

Among the different forms of sailing, yachting, which requires at least eight members on board, is Wong's favourite. "I enjoy sailing with a large group of people," Wong says. "We can talk about work or even give each other advice from a professional perspective. Conversations never get boring, and we never run out of topics."

> "When we are at sea, we are at the mercy of nature."

One thing certain about the sea is that it is uncertain. There can be sudden gusts, crashing waves or wind holes that trap vessels. As one of the first interest group members, Wong has participated in several sailing competitions. "The fascinating aspect of sailing is that you never deal with the same set of conditions. Nature is constantly changing, and you will never know when and where waves or gusts will emerge," Wong explains. "It is important to be flexible to changes. When we are at sea, we are at the mercy of nature. The wind and the waves can be both an obstacle and an asset. Adapting quickly and having the team react simultaneously is the key to victory. But this is what makes the sport appealing – it is both relaxing and exciting."

Members who are interested in sailing may consider joining the Institute's Sailing Interest Group. More information can be found at *www.hkicpa.org.hk*

ANDREA LAM CPA

Senior Manager at Bain & Company

Photography by Anthony Tung

As Senior Manager at Bain & Company, Andrea Lam CPA is responsible for helping company leaders find the best solutions to business problems. She tells *A Plus* how her experience as an auditor helps her to excel in her role, and how she learned a valuable lesson on stepping back

What is your current role and responsibilities? How is it going so far?

Bain & Company is a top management consulting company. We advise leaders on strategy, marketing, organization, operations, IT, and mergers and acquisitions, for example. In this role, I have the opportunity to lead a team and help organizations tackle their most difficult challenges. This often includes working with members of management and helping them to, for example, devise a strategy to help them enter a market, perform due diligence before they invest in a company, or value a company's portfolio. I've been enjoying the job, and I'm grateful to be surrounded by an army of bright individuals. It has been a challenging yet amazing journey so far.

What are the most rewarding and challenging aspects of your role, and why?

We are entrusted by our clients to help them solve some of their most challenging problems, which is the toughest part of the job. Our clients expect robust analyses, along with innovative and pragmatic recommendations from us, so it's important I take ownership of each project and its end product. The most rewarding part of the job is meeting the people I work with. We always work closely together to think outside of the box to deliver or even over-deliver on our clients' expectations. I've made good friends with many colleagues and stayed in contact with them even after they've left the company. I also enjoy the diversity of my tasks, which can range from helping companies with cost cutting, to enhancing the efficiency of an organization, and strategy-setting. In the process, I've been able to hone my leadership skills and build strong relationships with my team and the companies we work with.

What inspired you to become an accountant?

I wasn't too sure what I wanted to do after graduating, but I heard from my friends in the industry that being an accountant would provide me with solid training. I'm glad I did become an accountant. I'm particularly happy with the training that I received during the first years as an auditor. The experience helped me to understand how a business works and how to read its profit and loss statements, and this knowledge continues to help me in my current role.

Where do you see yourself in the next five to 10 years in your career? Which field do you plan on specializing in, and why?

I'd like to continue working in management consulting. The career path is flexible – you can choose to rotate between internal roles or choose to work part-time. My company also allows us to take an extended leave of absence, if need be. I particularly appreciate how dynamic management consulting is – you get to work with highly intelligent individuals and solve some very interesting problems with them. I also look forward to refining my soft skills in the years ahead, such as my skills in problem-solving, communication and leadership. It's important that we are agile to adapt to change in a world full of uncertainty.

What are the biggest lessons you have learned so far from work experience or managers?

It would be knowing how and when to take a step back and focus on the most important things which, in my role, is driving impact for my clients. During one particular project, everyone on the case was exhausted and under intense stress to reach our target results. I was confused about what to do and wasn't performing well either, and as a manager, this put me under a lot of pressure. What I have learned from the experience is to knowing how and when to pause and review situations. By focusing only on critical things that drive value for the client, I was able to stay centred and calm when faced with difficult situations. Now, every time I feel overwhelmed, I pause and ask myself, "Is this adding value?" By taking a moment to look at the bigger picture, I am able to achieve incredible outcomes.

How do you think the Qualification Programme (QP) has helped you in your career so far, or prepared you for your current role?

The QP laid a solid foundation for my career, as accounting is the language of business. I found the modules to be beneficial to my experience as an auditor, where I was exposed to a diverse mix of companies. I consider it a valuable experience, as now I'm able to quickly understand the problems facing a business and, using my skills and knowledge as a CPA, offer pragmatic and innovative solutions backed by numbers.

AFTER HOURS

As recommended by Institute members

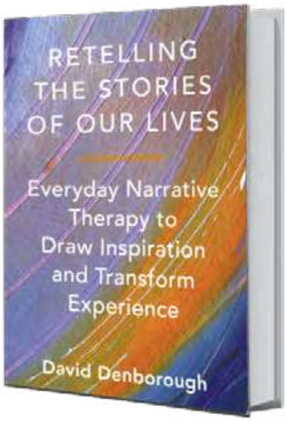

Bixby Bridge at Big Sur, California

Travel

"I look forward to travelling to the United States again and driving down State Route 1, which is a major north-south state highway that runs along most of the Pacific coastline of the state of California. At a total of just over 1,056 kilometres, it is the longest state route in California connecting Greater Los Angeles and the San Francisco Bay Area. There are many tourist attractions along the coast, such as Big Sur, Hearst Castle, Santa Cruz, Central Coast, and Monterey Bay. I recommend spending a night or two at one of the highway's seashore resorts to experience the sunset, and take in the magnificent views of the endless and majestic Pacific Ocean." – Dennis Ip FCPA, Chief Financial Officer at Impro Precision Industries.

Read

"I recommend *Retelling the Stories of Our Lives: Everyday Narrative Therapy to Draw Inspiration and Transform Experience* by David Denborough. As a counselling student, I am particularly interested in narrative therapy, which is a form of psychotherapy that seeks to help patients identify their values and the skills associated with them. There are numerous concepts discussed in the book, which I agree with. For example, the book discusses that each person is unique and leads a different lifestyle, and that there should not be some dominant discourses requiring people to live a certain way." – Acube Ma CPA, Senior Accountant at Transtec International Ltd.




Pietro Mascagni

Listen

"The famous actor James Caan, renowned for his role as Sonny Corleone in the mafia epic *The Godfather* passed away this month, and this made me think of the Godfather trilogy. The trilogy and its soundtracks are legendary, and the scene I love the most is the finale where the *Intermezzo* of the opera *Cavalleria Rusticana* is featured. This piece perfectly concluded the tragic life, love and revenge of Michael Corleone, making the scene more powerful and sentimental. Interestingly, this piece was written by Italian composer Pietro Mascagni in 1890, 100 years before *The Godfather Part III* was made, but it worked perfectly with the finale. I'm moved every time I listen to this masterpiece." – Brigitte Choi CPA, Regional Chief Financial Officer, APAC at Kering Eyewear