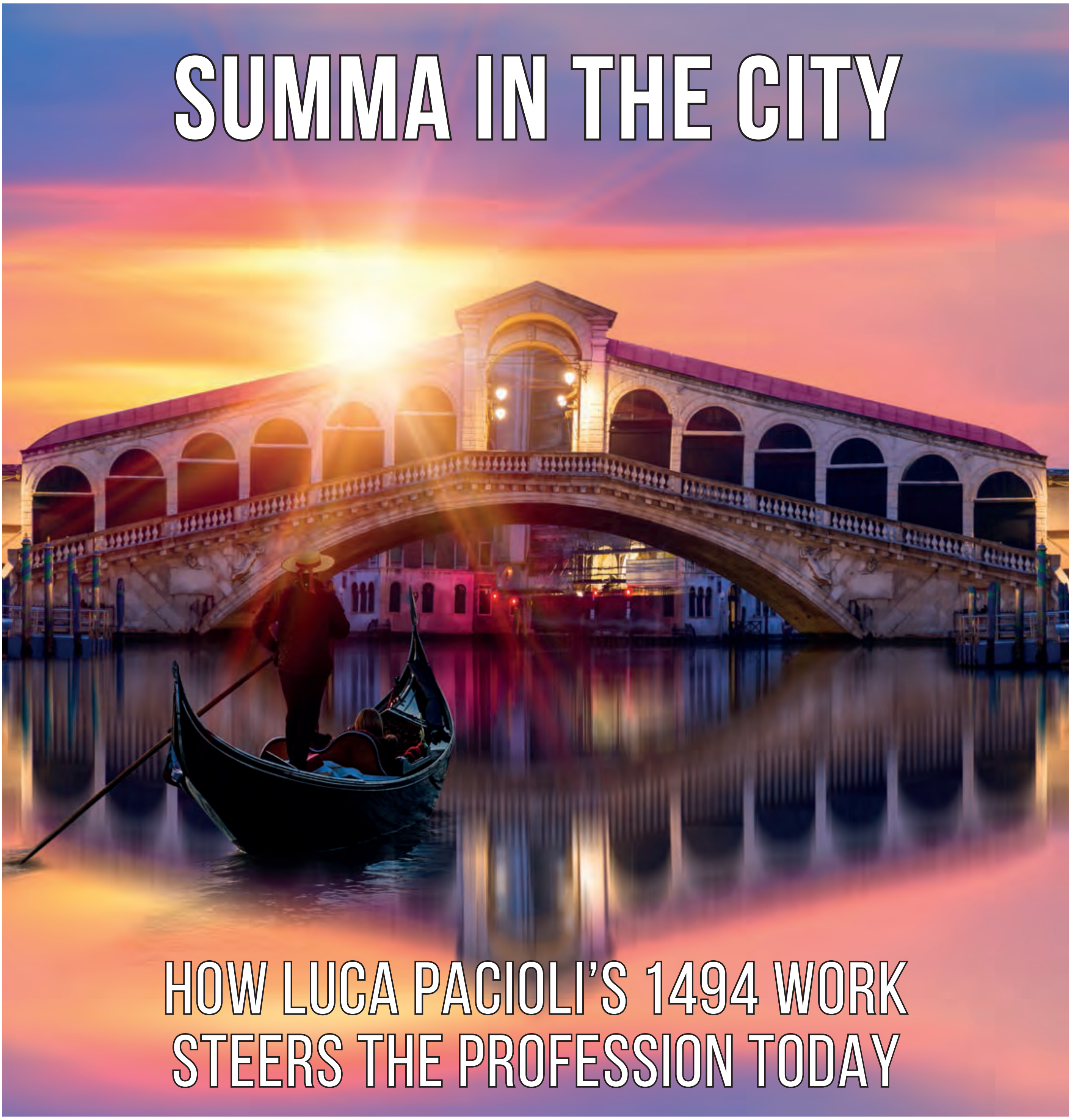
ISSUE 600 WWW.INTERNATIONALACCOUNTINGBULLETIN.COM AUGUST 2019

# INTERNATIONAL Accounting BULLETIN

## SUMMA IN THE CITY



## HOW LUCA PACIOLI'S 1494 WORK STEERS THE PROFESSION TODAY

### FEATURE

IESBA's Brian Friedrich discusses the development and launch of the eCode

### RANKINGS

Key data listings for South Korea, China, Malaysia, Vietnam and Hong Kong

### COMMENT

PKF International's James Hickey on ensuring effective future prosperity

# HONG KONG: GROWTH AND OPPORTUNITY DESPITE LOCAL TENSIONS

**Recent economic uncertainty and social unrest have, inevitably, tempered Hong Kong accounting firms' optimism over their short-term prospects, even though a number of service lines continue to experience growth. *Paul Golden* writes**

**The Hong Kong accounting market continues to be highly competitive, with potential for growth in advisory services in the areas of technology and forensic accounting.**

However, a number of factors are deterring firms from expanding, according to Jonathan Lai, managing director at HLB Hodgson Impey Cheng.

These factors include difficulties in recruitment and retention of human resources; the economic slowdown as a result of the slowing Chinese economy and protracted US-China trade war; adoption of new accounting, auditing and ethical standards, some of which are highly complex or onerous; escalating operating costs such as staffing, premises and insurance; substantial changes in listing rules and other laws and regulations governing new listings, reverse takeovers and delisting; and audit regulatory reform for listed entity auditors that takes effect from 1 October 2019.

Lai says: "In this context, we do not expect the market for accounting services to improve over the remainder of this year and into 2020. Rather, we see this as a time for consolidation in order to meet the challenges that lie ahead. While the listed entity audit market remains fiercely competitive, firms that are below quality standard will be driven out of the market due to increased regulatory scrutiny and sanctions."

Under the new regime for auditors of listed entities, the Hong Kong Institute of Certified Public Accountants (HKICPA) will continue to perform the statutory functions of registration, setting requirements for continuing professional development, and also setting standards on professional ethics, auditing and assurance in respect of relevant auditors, subject to oversight by the Financial Reporting Council (FRC).

Baker Tilly Hong Kong managing director Cynthia Lo explains: "The Amendment Ordinance ensures that Hong Kong's regulatory regime for auditors of listed entities is benchmarked against international standards and practice, and will also enable Hong Kong to be eligible for joining the International Forum of Independent Audit Regulators."

## AML CHANGES

Ken Ho Yin Yeung, partner at MGI Asia member firm Kenneth Chau & Co., says changes to AML regulations have also been a significant recent development.

The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Ordinance 2018, which took effect on 1 March 2018, covers "designated non-financial businesses and professions" including accountants, requiring them to comply with customer due diligence and record keeping requirements.

Yeung says: "We think the new requirements improve the overall Hong Kong financial sector AML standards with accountants' involvement. In addition, these actions can increase the understanding of clients during the customer due diligence process. The time costs incurred for customer due diligence and record keeping will definitely be increased, and the fees received by accounting firms should be adjusted accordingly."

Hong Kong Financial Reporting Standards (HKFRS) have also changed significantly in recent years. HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers are both effective for periods beginning from 1 January 2018, and affect many companies as they relate to financial assets and liabilities, and revenue recognition.

Yeung says: "Most of the financial statements for year 2018 will be issued in 2019, hence the first half of 2019 has been a busy time for Hong Kong accountants. In addition, HKFRS 16 Leases is effective from 1 January 2019, which affects many Hong Kong companies, since most operate in offices which are under lease contracts."

The strong IPO market has boosted demand for advisory and audit services associated with listed company offerings, and this trend is expected to continue at least in the short term.

That is the view of Mazars HK office managing director Stephen Weatherseed, who suggests that growth is also likely in financial services, which has a continuing need for consulting services involving financial reporting (HKFRS 9, 15 and 17) and other regulatory issues such as KYC and AML.

"Generally, all businesses are struggling with the complexities of the new financial reporting, which gives opportunities to the accounting firms," he adds. "For us, the main challenge will likely be the change of the audit regulator from the HKICPA to the FRC for our listed audits."

Attracting and retaining talent across all service lines remains a constant challenge, with opportunities for moving into commercial and even the public sector attracting accounting staff.

"Our challenge is how to respond with commercially feasible programmes and offerings," says Weatherseed, who expects the accounting services market to remain strong on the back of the continuing demand created by the Hong Kong IPO market.

"However, we are nervous about whether this will continue past 2020," he says. "The ongoing trade war between the US and China introduces unpredictability to the business environment that has a negative