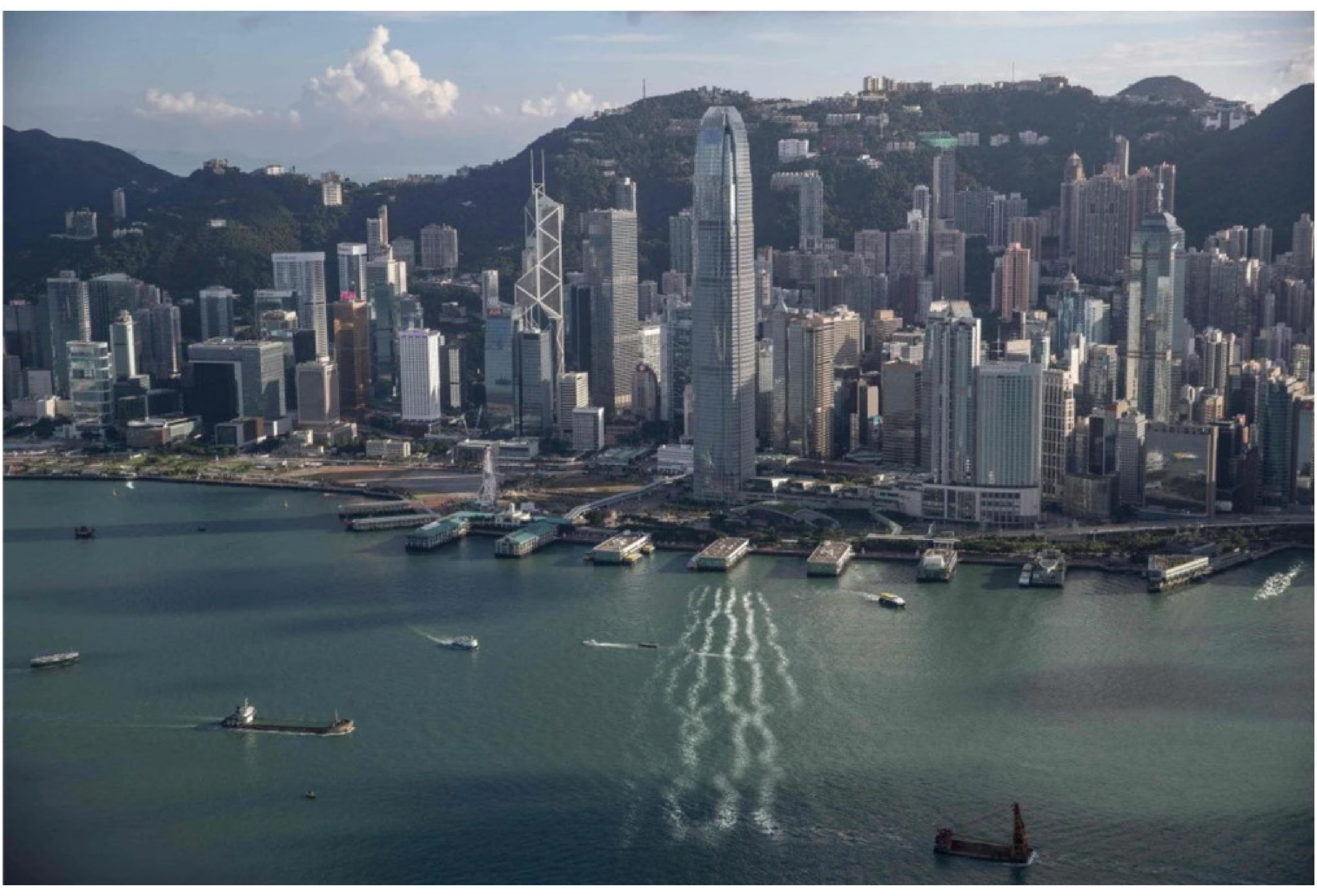
South China Morning Post

Greater Bay Area could provide new growth engine for Hong Kong accountants, industry body says

- Sector has been hit hard by pandemic, with some firms freezing hiring, asking staff to take pay cuts and scrapping bonuses
- Many companies in zone would like to hire city's accountants because of their international experience and network, says Hong Kong Institute of Certified Public Accountants' Raymond Cheng

Enoch Yiu
Published: 8:15am, 8 Feb, 2021


The Greater Bay Area shares Hong Kong's culture and language, says Raymond Cheng Chung-ching, the president of Hong Kong Institute of Certified Public Accountants. Photo: AFP

The Greater Bay Area development zone can be a growth engine for Hong Kong accountants, according to the newly-elected president of their industry body.

The sector has been hit hard by the economic dislocation caused by the coronavirus pandemic, with some firms freezing hiring, asking staff to take pay cuts and scrapping bonuses. The Hong Kong Institute of Certified Public Accountants, which represents the city's more than 46,000 accountants, has set up a committee to study how seminars, tours and other projects could help small firms and accountants grow their business in the Greater Bay Area.

"The Greater Bay Area shares Hong Kong's culture and language. Many companies in the development zone would like to hire accountants from the city because of their international experience and network," Raymond Cheng Chung-ching, the institute's president, said.

The city's accountants could benefit from Beijing's push to integrate Hong Kong with the other cities in the development zone. On Friday, the city's bourse operator was given the go-ahead to invest in the newly set up Guangzhou Futures Exchange. The same day, regulators also signed a memorandum of understanding to prepare rules for the soon-to-be launched Wealth Management Connect scheme.

Moreover, China's top banking regulator vowed last month to open up the zone to Hong Kong companies in general. "We will provide greater market access to firms from Hong Kong to facilitate their development," Guo Shuqing, chairman of the China Banking and Insurance Regulatory Commission, told a online forum in Hong Kong.


Raymond Cheng, the Hong Kong Institute of Certified Public Accountants' newly-elected president. Photo: Handout

Cheng said opportunities in the development zone were important for Hong Kong's accountants because of the city's economic crisis, and that they could easily provide non audit services in the Greater Bay Area.

Hong Kong accountants that do not have mainland Chinese qualifications could provide consultancy services in areas such as business development, forensic investigation, background checks, due diligence and advisory services to help companies list in Hong Kong, Cheng said. They could also apply for these qualifications or team up with mainland firms.

"The Covid-19 pandemic, which has led to a suspension in cross-border traffic between Hong Kong and the mainland because of quarantine requirements, has also led many Hong Kong accounting firms to plan for partnerships with mainland firms to serve clients across the border. It will become a trend," he said.

Himself a veteran accountant and chairman of HLB Hodgson Impey Cheng Limited, Cheng has helped many companies list in Hong Kong. The city has been the world's largest initial public offering market seven times in the past 12 years. Last year, it was the world's second largest IPO destination after Nasdaq.

He said besides the many start-ups in the Greater Bay Area, companies from other parts of China were also expanding in the development zone, and that these too could be potential clients for Hong Kong's accountants.

"Hong Kong has a very active capital market, which attracts many mainland firms to come here to issue stocks and bonds. Hence, the demand for Hong Kong accountants is huge," he added.

The city's economy shrank 3 per cent in the fourth quarter, resulting in a full-year decline of 6.1 per cent for 2020, thanks to the coronavirus pandemic, according to advance estimates released by the Census and Statistics Department recently. This is worse than a 5.1 per cent decline in 1998, when the Asian Financial Crisis battered the local economy.

In this setting, the Greater Bay Area, with its combined population of 72 million people and an economy estimated to be worth US$1.65 trillion in 2019, could prove to be the promised land for the city's accountants.

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Business / Banking & Finance

Hong Kong exchange operator’s push to raise the bar for IPOs meets with stiff opposition

- HKEX wants to triple profit requirement for new listings, a move which would give the bourse the world’s highest barrier to entry for market debutants
- Opponents say the rules would bar smaller companies from listing in the city

Enoch Yiu
Published: 2:05pm, 8 Feb, 2021

Hong Kong Exchanges & Clearing Ltd has an uphill battle to push its proposals to triple its profit requirement for new listing of its mainboard. Photo taken in August in 2020. Photo: Bloomberg

Hong Kong Exchanges and Clearing faces an uphill battle to push through its proposal to drastically raise the profit threshold for companies seeking a listing on its main board, a blow to the exchange operator’s push to enhance corporate governance on the HK$54 trillion (US$7 trillion) bourse.

HKEX proposed a tripling of its profit requirement for listing applicants in November, to clean up problematic corporate behaviour, enhance the quality of market constituents and to protect investors.

However, lawmakers, accountants, and brokers have complained that the move would bar many small local firms from raising funds, especially now that the pandemic has dented their profits during the city’s worst economic recession on record. This stiff opposition could lead to the exchange abandoning the fight or make amendments to its plan.

“The proposals seem to discriminate against small-and-medium enterprises, particularly those in the traditional industries,” said Raymond Cheng Chung-ching, president of the Hong Kong Institute of Certified Public Accountants, representing 46,000 accountants in the city. “Many of today‘s blue chips companies and mega-corporations started as SMEs.”

HKEX profit requirement

Comparison of minimum profit rules of major stock exchanges for market debutantes

Market	Three years profit in aggregate (HK$m)	Final year profit (HK$m)
HKEX Main Board	50	20
HKEX Main Board (option 1)	125	50
HKEX Main Board (option 2)	150	60
ASX	6	3
London Stock Exchange premium listed securities	No requirement	No requirement
Nasdaq Global Select Market	85	17
New York Stock Exchange	93	16
Singapore Exchange (Main Board)	No requirement	170
Shanghai Stock Exchange (Main Board)	35	No requirement

Source: HKEX SCMP

Picture: HKEX

Last week, the stock exchange operator ended a two-month consultation to lift the profit requirements for companies seeking to list in Hong Kong in two ways.

The first option increases the three-year profit requirement to HK$125 million, while the most recent year requirement rises to HK$50 million, HKEX said. The second option triples the profit requirement to at least HK$150 million in the three years leading up to a listing, up from HK$50 million The profit requirement will also triple to HK$60 million in the most recent financial year, up from HK$20 million.

The proposed thresholds would make Hong Kong the toughest exchange in the world in terms of option two, higher than the New York Stock Exchange’s bar. It would be the second-highest profit threshold in terms of profit requirement of most recent year before the listing, just behind Singapore’s exchange.

The proposals would theoretically have barred 62 per cent of the 745 companies that listed on Hong Kong’s main board between 2016 and 2019, according to an estimate in the exchange’s consultation paper.

“The proposed profit threshold too high for most Hong Kong companies,” said Tom Chan Pak-lam, chairman of the Hong Kong Institute of Securities Dealers. “If the exchange goes ahead with the proposals, it would prevent small and medium-sized companies listing on the mainboard. So smaller investment banks and brokers would also lose related business opportunities.”

The plan is part of Hong Kong financial regulators’ efforts to deter listings by so-called shell companies that inflate their profitability. The exchange said it was unsure if some small listed companies listed to raise funds to develop their businesses or sought a listing to “manufacture potential shell companies for sale after listing given the perceived premium attached to the listing status.”

The stock exchange’s main board has been the world’s largest initial public offering market seven times over 12 years.

HKICPA’s Cheng said the exchange should not assume that all SME listing candidates aim to create a shell company and it should tackle this problem in other ways such as stronger enforcement.

Lawmaker Regina Ip Lau Suk-yee is against the HKEX’s proposal. Photo: Jonathan Wong

“A minimum profit requirement has nothing to do with corporate governance and little to do with investment risk. Companies which make profits before the listing can make losses afterwards,” said David Webb, a former director of HKEX and a shareholder activist in his submission to the exchange, which he posted on his website.

Several lawmakers also voiced their concerns in one of Hong Kong’s Legislative Council meetings last week.

“It seems the HKEX only wants to attract mainland tech giants to list here and does not serve Hong Kong companies wishing to raise funds any more,” said legislator Regina Ip Lau Suk-yee.

The proposed change in profit requirements will be HKEX’s first since 1994 when the rule was introduced.

Leading firms in the internet or biotech space, and innovative segments in general, are good investments from early non-profitable stage, said David Gaud, Pictet’s wealth management Asia chief investment officer.

“Preventing earlier access to smaller investors via public offering is a disadvantage to those investors,” he aid. “Pre-IPO due diligence process and publishing are meant to highlight the risks and advantages of the asset. The non-profitability criterion is there, it can be put in perspective along with the other, also relevant, criteria.”