

# Objectives of the Hong Kong Institute of CPAs and Scope for Indian accountants



In 2010, Agricultural Bank of China listed in Hong Kong and Shanghai, and raised more than \$ 22 billion—making it the world's largest IPO ever. That same year, the mainland became the second largest economy in the world and Hong Kong sat on top of global IPO rankings. By the end of 2011, Hong Kong's stock market was the third largest in Asia and the seventh largest in the world based on market capitalisation. Now, with more than 1,500 companies listed on all its exchanges, the city's total market capitalisation is approximately \$ 2.2 trillion. This scenario offers tremendous opportunities for modern accountants. The phenomenal evolution of the accounting profession in this part of the world goes hand in hand with the mainland's amazing growth. But the increase in the number of CPAs, from some 17,000 a decade ago to more than 33,000 now, still lags the 2.4 times increase in the stock market's market capitalisation. Read on...



**Keith Pogson**

(The author is President, Hong Kong Institute of CPAs. He can be reached at [mindee@hkcipa.org.hk](mailto:mindee@hkcipa.org.hk))

The pace of change in Hong Kong is impressive as one might expect from a city at the forefront of China's sustained growth. CPAs in Hong Kong are adept at responding to changes in the business environment and changes in the global accountancy profession.

The phenomenal evolution of the accounting profession in this part of the world goes hand in hand with the mainland's amazing growth. The Hong Kong Institute of CPAs has witnessed and benefited from this growth and development. The objectives and successes of the Institute are closely intertwined with its ties to the mainland.

### Building Closer Ties with the Mainland

In the 1980's, Hong Kong's accounting profession started to grow closer to its mainland counterpart, just as the city developed closer ties with China.

Initially, there was some culture shock. Many mainland accountants still used abacuses instead of computers and most businesses operated in cash instead of credit.

There were language barriers, too. Many Hong Kong accountants couldn't speak comfortably in Putonghua. Similarly, most mainland accountants did not speak Cantonese. The common language between the two professions was English, which fortunately was also the international language of accounting and business.

Hong Kong's accounting profession worked with its counterpart here to set up the Chinese Institute of Certified Public Accountants in 1988. The mainland needed a central accounting body to certify its accountants, just as Hong Kong needed one in the early 1970s.

The Institute supported the mainland's accounting profession on the international stage by nominating the Chinese Institute of CPAs to the Confederation of Asian and Pacific Accountants, the International Accounting Standards Board, and the International Federation of Accountants.

Meanwhile, mainland companies began increasing their presence in Hong Kong's financial markets, which contributed greatly to Hong Kong's prosperity. Red chip companies, mainland companies incorporated and listed in Hong Kong, and H-share companies, mainland companies listed in Hong Kong but incorporated in the mainland, started listing on Hong Kong's stock exchange.

Hai Hong, listed in 1992, was the first red chip and Tsingtao Brewery, listed in 1993, was the first H-share company listed in Hong Kong. The Hong Kong Institute of CPAs worked with mainland authorities to invent the accounting and auditing rules that would allow mainland companies, with their different accounting treatments, to list in Hong Kong.

The Institute's relationship with the CICPA grew throughout the decade. In 1991, the CICPA held the first CPA Uniform Examination and in 1994, the Institute signed a memorandum of cooperation with the CICPA to encourage all kinds of interaction: cross-border training programmes, regional seminars, exchange visits, and trading regulatory know-how.

At the beginning of the millennium, the Institute refocused its efforts to work with the Chinese profession to complete its convergence with international accounting standards. The Hong Kong Institute of CPAs, the Chinese Institute of CPAs, the Ministry of Finance and the International Accounting Standards Board went through every standard to substantially converge China's standards

with international standards. By 2007, the mainland had a new set of accounting standards that would make, for the most part, two sets of books – one for the mainland and one for Hong Kong — unnecessary.

Hong Kong's relationship with China helped the city escape almost unscathed from the 2008 global financial crisis compared to other financial hubs, partly because the mainland's economy kept growing at a rapid pace. Accountants felt the downturn but their skills were in demand as companies sought cash and credit to stay in business or make their businesses grow.

### Supporting Internationalisation of the RMB

This is a particularly interesting time for Hong Kong and its CPAs. In March 2011, China approved its twelfth five-year plan with, for the first time, a chapter dedicated to Hong Kong and Macau. The Central Government has confirmed its support for consolidating Hong Kong's status as an international financial centre, and, perhaps more significantly, for leveraging Hong Kong's open and globally respected market as the testing ground for the mainland's financial reform and liberalisation.

As China became the second largest economy in the world and Hong Kong became the world's busiest IPO destination, the *renminbi* gained much global attention and its convertibility has become a hot-button issue for the global economy.

The mainland's decision to internationalise the *renminbi* through invoicing cross border trade and investments in renminbi is, and will be, a topical issue as China keeps on growing. The decision to reduce foreign exchange rate risk in the aftermath of the global financial crisis is an important one. The decision is also important because China needs to figure out how to achieve internationalisation before convertibility of its currency. This is unprecedented.

The solution is to have an offshore centre where there is a degree of non-resident convertibility. For offshore investors, there is familiarity with the rules of an offshore centre and experimentation with the *renminbi*. For onshore authorities, the offshore centre allows the currency to gain worldwide acceptability and to be studied for future reform.

Hong Kong provides value to the mainland's currency reform, as set out clearly in the 12<sup>th</sup> five year plan. The decision to use Hong Kong as an offshore currency centre could potentially have the same transformational impact as the decision to use Hong Kong as an H-share exchange.

As an offshore currency centre, Hong Kong will continue to evolve as a global financial hub but with breath-taking speed. In less than a year, this market grew to deposits of more than 50 billion *renminbi*.

Hong Kong's view is that an offshore *renminbi* centre attracts foreign issuers to its market to finance investments in the mainland, and it captures foreign listings with a compelling China story.

### Climbing IPO Tables

The mainland has used Hong Kong as its financial centre, and this has propelled Hong Kong to the top of the IPO table. The policy to use Hong Kong's stock market for mainland companies to raise funds was a conscious decision made at a very senior level back in the early nineties after lobbying by Hong Kong. Today, the HKEx hosts 167 H shares and 107 red chips (as of March 2012).

Hong Kong has top quality people and infrastructure, rivaling that of New York and London; however, it doesn't have the depth of market because of the size and competition constraints of the city. London serves as the international financial centre for all of Europe, while New York has the entire United States as its hinterland. Hong Kong's own GDP is small and it faces intense competition from a number of financial centers, such as Shanghai and Singapore, serving the same region.

Hong Kong and China have a relationship built on mutual benefits. The mainland has access to international capital through Hong Kong, and this helps fund its annual growth rate of 8% to 10%.

### Helping China Go International

Having an international capital market in Hong Kong is China's unique development advantage—something not shared by other emerging markets. Hong Kong has become more international as a result of becoming China's global financial centre. The proportion of foreign institutional investors has grown significantly and 60% of assets under management are from outside of Hong Kong.

Global financial gravity has shifted from the West to the East. International issuers are drawn to Hong Kong because of the overseas and Chinese liquidity the city attracts. Globally, the financial crisis has also prompted rethinking on the part of the West, which has shifted its institutional money to the East. This bodes well for Hong Kong as an international asset management centre.

The growing relationship between Hong Kong and China creates a larger pie and more opportunities for both sides. In 2010, the Institute worked with the CICPA and the Ministry of Finance to come up with a scheme allowing approved mainland auditors to audit H-share companies listed in Hong Kong. This development shows how the profession looks for mutually beneficial opportunities for collaboration. It illustrates the maturation of the

profession in the mainland, including convergence with IFRS, auditing standards and now ethics standards. In partnership, Hong Kong and China will be stronger on the international front as well.

### Creating Even More Value for CPAs

In the Institute's inaugural thought leadership conference held last year, a top Hong Kong government official quoted a correlation analysis between the number of CPAs in the city and the average market capitalisation of the stock exchange. Using data between 2000 and 2010, there was a remarkable correlation of 0.9—indicating a high correlation between the growth of the accounting profession and Hong Kong's capital markets.

But the increase in the number of CPAs, from some 17,000 a decade ago to more than 33,000 now, still lags the 2.4 times increase in the stock market's market capitalisation. This most likely means that CPA's are a high value and hardworking group of people. If a similar correlation analysis were run for the mainland, the correlation would most likely be just as uncannily remarkable and there would be a huge demand for CPAs to keep pace with China's burgeoning growth.

One of the signs of the demand for CPAs, and a reflection of the increasing sophistication of commercial and financial markets, is the specialisation of accountants.

The demand for niche accounting services—from restructuring and insolvency advice to forensic accounting to corporate finance counsel—is palpable. Accountants need to understand new industries, new business models, new financial instruments, and a new accounting mentality. They are not just numbers people. They are business consultants, and in many cases, business leaders. Accountants are now heavily involved in every step of the business life cycle.

Another sign of an increasingly sophisticated market is the need for the profession to pay greater attention to ethics and governance. As professionals, accountants are trained to keep the public interest foremost in mind. That's why they bear the burden of governance. Whether accountants rescue a company from bankruptcy or blow

**Set up after World War II and established even before the Indian constitution was adopted, the Institute of Chartered Accountants of India is well-placed to lead its accounting profession into a new era. As one of the high-potential BRIC countries, India is poised for dynamic growth and the country's accountants are going to be a major player on the world's stage.**

the whistle on a case of corruption, their job is to keep an eye on the greater public good.

### Understanding International Accounting Landscape

The modern accountant also needs to be worldly. They need to deal with multiple regulators and take into account each jurisdiction's own agenda. They constantly have to think about requirements in multiple markets as they tend to work cross borders. This is why accountants need to keep abreast of overseas policies and compliance with extraterritorial legislation such as the American Foreign Corrupt Practices Act and Britain's Bribery Act.

The increasing complexity of accounting standards is also something which modern accountants have to deal and contend with. More specifically, they have to look at:

- An increased focus on fair value measurements in financial reporting
- A heavier dependence on estimation of future events
- Less independent evidence available to challenge judgments
- More complicated and voluminous financial reporting requirements
- Higher consistency in application of new auditing requirements
- More mutual recognition between jurisdictions to alleviate administrative burden and duplication of oversight
- Additional restrictions on non-audit services—such as auditor rotation requirements in some jurisdictions
- More judgment on recording of transactions

The demands on the 21<sup>st</sup> century accountant don't just end here. As mentioned before, modern accountants need to be business advisers and leaders. The value to business offered by modern accountants is their intellectual capital.

The increasing sophistication of modern accountants makes them even more sought after. They started out as book-keepers putting an organisation's books in order and have evolved into contemporary business leaders with some of the best skills to take the world of business and commerce beyond the 21<sup>st</sup> century.

### Leading the Profession

In response to the challenges faced by the Hong Kong and China accounting relationship, and the increasingly important role of accountants as guardians of international capital markets, the Institute has:

- Developed a home-grown and world-class qualification programme (QP) to train the next generation of accountants and to ensure the highest standards and expectations are being met.

- Entered into numerous mutual recognition agreements with global accounting regulators, including most recently the AICPA, to oversee international global capital markets, increase the mobility of Hong Kong CPAs, and give them more opportunities to bring their skills to market.
- Delivered specialist education and qualifications, in areas such as insolvency and China tax, to ensure that Hong Kong CPAs are appropriately skilled to manage new challenges.
- Deepened relationships with mainland authorities and worked with them to influence the direction of global regulation and accounting frameworks.
- Worked with the HKSAR government and media to ensure that Hong Kong-based businesses lead the world in the best practices and implementation of corporate governance.
- Protected the brand of qualified accountants and ensured that only those with publicly recognised skills are legitimately selling their services.
- Introduced accounting best practices in Hong Kong and shared knowledge with the mainland to build a highly skilled talent base to help take business forward.
- Remained steadfast in leading the business community as accounting is the language of business.

### Accounting for India

As the second largest accounting body in the world, the Indian accounting profession has a voice that deserves to be heard. Also, as the second most populous country in the world, India is a global force to be reckoned with. Just as China is a country still in the midst of phenomenal growth, India's development story is equally compelling and powerful.

India's development wouldn't be possible without its accountants as accounting skills are a necessity in all walks of development: in big multinational conglomerates, in mom-and-pop grocery stores, in non-profit micro-loan organisations, in village governing bodies, in homes where families need to be financially responsible, everywhere.

As the first territory fully compliant with IFRS, and as a jurisdiction that has experienced the benefits of adopting it, the Institute would thoroughly encourage the ICAI to fully embrace IFRS and the global comparability and transparency that such standards would bring.

Set up after World War II and established even before the Indian constitution was adopted, the Institute of Chartered Accountants of India is well-placed to lead its accounting profession into a new era. As one of the high-potential BRIC countries, India is poised for dynamic growth and the country's accountants are going to be a major player on the world's stage. ■