A LOOK BACK AT 2007

It’s been a rocking, rolling year for the profession

By Liana Cafolla

Stock market: Up, up and away

With a surging stock market and no shortage of excitement across the border, 2007 was a full year for the accounting profession. While there’s no telling what will happen as the year draws to a close, by December Hong Kong had set some new records.

Hong Kong’s stock markets climbed to frantic heights this year, setting a string of record closes nearing the 32,000 point mark. Riding on the China fever, share prices, especially of mainland companies listed in Hong Kong, staged a dramatic rebound from the sharp downturn in August.

Investors stayed bullish most of the year, mainly due to expectations of more U.S. interest rate cuts. Investors in Hong Kong and China didn’t seem too concerned about rising oil prices and the credit crunch in the U.S. markets.

Take a moment to envy those who bought shares traded on the Hong Kong Stock Exchange – this year the exchange doubled its daily turnover compared to last year, with market capitalization reaching...
Human Hong Kong’s stock markets set a string of record closes

Year in review

US$2.6 trillion in late October, or 1,360 percent of the city’s GDP. In late November, it had risen to US$2.9 trillion. Paul Chow, the bourse’s chief executive, says the phenomenal growth is largely due to new listings by mainland companies in Hong Kong. About 400 mainland-related enterprises are listed on HKEx now. Together, they account for around 65 percent of total equity funds raised in the city, 60 percent of market capitalization and 70 percent of equity turnover.

Foreign money loves Hong Kong. The SAR’s status as a foreign investment destination keeps contributing to growth and the United Nations World Investment Report this year ranked the city as Asia’s second most preferred destination for foreign investment, with the mainland taking first place.

Two other factors are boosting optimism: First, many are predicting money belonging to mainland investors will flood Hong Kong’s market and second, with the Olympics in Beijing next year, talk has it that the mainland authorities will stop any catastrophes from sullying Hong Kong’s financial image.

Hong Kong top for corporate governance

Corporate governance advocates, including the Hong Kong Institute of CPAs, can salute the fact that Hong Kong beat regional rival Singapore to come out top this year for corporate governance in Asia, according to a survey by CLSA and lobby group Asian Corporate Governance Watch. That, however, doesn’t mean the city can relax.

The report, while praising Hong Kong’s improved commitment to allowing shareholders to vote and its regulatory transparency, says the city still has some way to go. The survey covered 11 countries on criteria including transparency, independence and accountability.

Chow, meanwhile, says the bourse is doing its part to improve corporate governance, including revising its listing rules to encourage companies’ compliance with its code on corporate governance practices. According to the HKEx’s 2006 review, about 89 percent of the 621 issuers now comply with at least 41 of the 44 provisions.

New kid on the block

One example of Hong Kong’s award-winning corporate governance is the establishment of the Financial Reporting Council this year. The new watchdog takes over the Institute’s responsibility for investigating auditing and financial reporting irregularities of Hong Kong’s listed companies.

The need for an FRC grew from the investing public’s demand for
The Big Four have built up their presence in the mainland over the past few years and are recruiting huge numbers of mainland graduates.

China moves to convergence

Across the border, one of the biggest news events was China’s introduction of the International Financial Reporting Standards since the beginning of the year – a clear sign of the country’s desire to join up with mainstream economies.

In 2006, China adopted Accounting Standards for Business Enterprises, a Chinese standard under Chinese law, and has since been seeking international acceptance of this standard, says Institute President Mark Fong.

Fong says discussions are coming to a conclusion with the Chinese Ministry of Finance to make convergence with IFRS a reality.

One issue was the definition of related parties. “Under international standards, anything state-owned is related party and you have to disclose. But in China, many enterprises are state-owned.”

Fong says mainland authorities want other jurisdictions to accept Chinese companies’ accounts prepared under Chinese standards. But it doesn’t mean the regulations have to be equivalent, nor that the final figures produced be identical, he says. Even under the Hong Kong Financial Reporting Standards, Fong says different accountants can go through the same accounts and come up with different sets of numbers, and they can all be using a methodology acceptable under the standards.

“So what we’re doing now is comparing and identifying any difference we can find between the two standards. Come up with a list, go through the list, and decide on which have a material effect on the end game, which is the set of accounts,” he explains.

The convergence process is a continuing process and Fong is convinced that it will not be a one-way street. “International standards will also change to address special circumstances in other jurisdictions including China,” he believes, “and that’s positive for Hong Kong.”

Talent war

The explosive growth in demand for accounting services in Hong Kong and the mainland means recruiting experienced people remains a big challenge for the profession this year.

The Big Four have dramatically built up their presence in the mainland over the past few years and are recruiting huge numbers of mainland graduates as a long-term strategy.

Kenneth McKelvie, chairman of Deloitte China, says the firm’s
headcount is about 7,000, of which about 5,000 are in the mainland. “On the recruiting side – our main graduate intake from local universities was about 1,200 this year, of which over 900 were for our mainland China offices. We expect this to be about 1,350 in total next year, of which over 1,000 will be for our mainland offices,” he says. Deloitte fills additional staff needs, particularly experienced hires, through local and international recruitment, including secondments from other Deloitte offices worldwide.

At Ernst & Young, the figures are similarly staggering. Total staff is 8,000 for China, including Hong Kong. The company hired about 1,400 graduates in 2007, of which 180 were from Hong Kong. Next year, it will hire another 1,400.

The two Big Four firms say the number of accounting graduates is not keeping pace with their firms’ growth, but the good news is that the standard of graduates is very high, says McKelvie. He says Deloitte recently sent a group of 20 mainland graduates to its U.K. office for training. “These are very good quality people. They are impressing our colleagues in the U.K.”

The problem of supply and demand will start to balance out over the next four to five years, he predicts, as the number of accountants swell.

**Merger magic**

In what might be a harbinger for the profession, mid-tier firms Grant Thornton and Moores Rowland (formerly Moores Rowland Mazars) merged this year to expand its competitiveness in the mainland. Grant Thornton now has a total of 25 partners and 550 staff.

The firm’s Managing Partner Gabriel Azedo called it “a significant expansion, making Grant Thornton a stronger accounting firm.”

Accountants who do business in China say the success of accountancy firms in China relies on a thorough understanding of Chinese culture, strong relationships inside the country and, crucially, the support of the mainland government.

Mark Fong, the Institute’s president and a partner in the firm, says international firms need a China presence that is large and able to meet international expectations. Firms need to demonstrate capability on the mainland while at the same time, build their business in Chinese companies.

**Judicial review**

One of the challenges the Institute faced this year was a judicial review brought against it by the legislative councillor for the accountancy sector. Mandy Tam challenged the Institute council’s decision to stop
The Hong Kong Institute of CPAs set a few of its own records this year.

Membership grew to a record high in 2007, to nearly 27,000. This is up from 13,000 only a short decade ago. A record number of QP graduates qualified for the profession this year, adding up to more than 900 CPAs who have come through the Institute’s programme, while a record number – 12,000 – are registered students.

More accountants than ever are helping groom aspiring CPAs: 1,600 of our members have signed up as supervisors to take accountants through their practical training and almost 900 employers joined the scheme.

2007 was a good year to be a member of the profession. Executive recruiters say demand surged for the skills of accountants, with good pay increases and fast track career paths.

This came with a price: A recent survey showed Hong Kong accountants, as measured against accountants in 17 other developed economies, reported the biggest jump in working hours, with more than a third saying this year they worked 16 or more hours per week than in the preceding two years.