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

To: Assignment/Business Section Editor
(For Immediate Release)

Hong Kong Institute of CPAs Issues Guidance for Insolvency Practitioners

First Set of Guidance Notes for Hong Kong

(HONG KONG, 14 September 2005) — Accountants who carry out company windings up will now have a set of recommended guidelines to follow, allowing them a more definite approach for advising their clients, according to the Hong Kong Institute of Certified Public Accountants.

The "Insolvency Guidance Notes (IGNs)" are the first set of coordinated guidelines issued for Institute members and aim to codify best practice for liquidations under the Companies Ordinance.

"Insolvency practice has been largely an unregulated area in Hong Kong, unlike in most other major business centres," explains Paul Chan, vice president of the Institute. "Introducing best practice guidance represents a first step by the Institute towards a more regulated approach, which is welcomed," Mr. Chan adds.

Historically, the government, through the Official Receiver's Office, has handled the administration of court-ordered corporate liquidations and the number of liquidations was relatively low. With the increase in the number of insolvency cases following the onset of the Asian financial crisis in 1997 and the resource constraints faced by the government, private sector practitioners now handle most corporate insolvency work.

"The orderly administration of companies in financial difficulties and the winding up of those that can no longer be saved is critical to the efficient operation of the market," says Mr. Alan Tang, chairman of the Institute's Insolvency Practitioners Committee. "But people sometimes overlook the fact that it also is part of the rule of commercial law in Hong Kong."

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The importance of good insolvency services was highlighted in the government consultation paper, “Review of the Role of the Official Receiver’s Office” (June 2002), which stated:

> “Any economy that operates on credit has to deal with insolvencies… It is important to the smooth functioning of the market that such insolvencies are dealt with efficiently and effectively. This promotes business confidence, recycles assets frozen in the insolvent estates and provides appropriate checks and balances against the misuse of credit.”

There is little doubt that Hong Kong could not maintain its position as a major international business and finance centre if it could not provide insolvency services of an international standard, says Mr. Chan.

“Now that the government is contracting out nearly all corporate insolvency work to private accounting firms and other professionals and is planning to do the same for personal bankruptcies, we need to build up a body of high quality local insolvency practitioners and to strengthen the expertise and standards of our members who want to specialise in this area,” says Mr. Tang.

The first batch of guidance notes address three areas key of insolvency: the scope and role of the liquidator’s investigation into the affairs of an insolvent company, how receipts and payments accounts should be prepared by office holders, and reporting on the conduct of the company directors to the Official Receiver.

While accountants doing insolvency work up until now had the Companies Ordinance and Winding Up Rules to follow, the IGNs take matters a step farther by more specifically outlining the duties and responsibilities of the liquidators in these three areas.

“The scope of the guidance notes is similar to the coverage of the Statements of Insolvency Practice issued by the various licensing bodies in the United Kingdom,” explains Mr. Darach Haughey, convener of the task force that developed the guidance notes. “In producing the IGNs, we were also very aware of the differences between the situation in Hong Kong and the UK,” Mr. Haughey says.

The Institute says that these guidance notes are only the beginning and a major first step in what will be a continuing process.

Although the notes are not mandatory for members, the Institute says, members may need to explain and justify significant departures from the notes. They represent “best practice” which the Institute would expect its members to observe in normal circumstances. The guidance notes become applicable for cases commencing on or after 1 October 2005.

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<u>Editor's Notes</u>

About Hong Kong Institute of Certified Public Accountants

The Hong Kong Institute of CPAs is the only body authorised by law to register and grant practising certificates to Certified Public Accountants in Hong Kong. The Institute has 25,000 members and nearly 10,000 registered students. Members of the Institute are entitled to the description *Certified Public Accountant* and to the designatory letters *CPA.*

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance and works in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate CPA Qualification Programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

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