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WHAT'S INFLUENCING INVESTORS' BUSINESS STRATEGIES FOR HONG KONG AND MACAU?

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Readers of APERCU may recall that during the first two quarters of 2020, the COVID-19 pandemic continued to escalate across the globe, with a surge of confirmed cases reported daily in almost every country in the world. The unprecedented challenges created by the COVID-19 pandemic have had a severely negative impact on the global economy. Governments throughout the world have promptly implemented measures to stop the spread of COVID-19, imposing lockdowns, social distancing, quarantine arrangements, restrictions on travel and public events, etc. Meanwhile, they have put in place relief measures to ease the financial burden on businesses and individuals during these difficult times.

The measures taken by the governments of Hong Kong and Macau during the COVID-19 outbreak have become the talk of the town recently, and once again comparisons are being made between the two cities in terms of the efficiency of their governance. Besides, following Chairman Xi's visit to Macau to mark the 20th anniversary of the establishment of the Macau Special Administrative Region in December 2019, there has been conjecture about whether the mainland Chinese leadership will announce new policies on diversifying Macau's gaming-dependent economy, developing it from a casino hub into an international financial centre. These new policies, once implemented, would certainly bring about a radical change in Macau's economy and would open up new opportunities and challenges.

The article we published in the April 2017 issue of APERCU updated readers on how the evolution of Macau's economy has impacted investors' business strategies; its low taxation regime, free port and lack of foreign exchange controls have created a new business environment that has attracted overseas investors. Will the upcoming new policies to transform Macau into an international financial centre result in direct competition between Macau and Hong Kong, or threaten Hong Kong's prestige as an international financial centre? Macau would also seem to face significant challenges in any future transformation into an international financial centre; for example, it will need to make significant investments in its infrastructure, supply of qualified professionals, enactment of new securities laws and so on before it can elevate its status to that of a global financial centre.

Investors who are considering making new investments in Macau and Hong Kong should take a glance at **tables 1** to **3**, which show comparisons between the latest rates for profits (complementary) tax and salaries (professional) tax, as well as other relevant legislation, in the two cities.

Table 1. Latest profits tax rates in Hong Kong and Macau

HONG KONG PROFITS TAX RATES	
Corporations	16.5%/8.25%
Unincorporated businesses	15%/7.5%

Note: Profits tax for the first HK$2,000,000 of profit for corporations and unincorporated businesses is reduced to 8.25% and 7.5%, respectively.

MACAU PROFITS TAX (COMPLEMENTARY TAX) RATES	
Annual assessable profits not exceeding MOP600,000	0%
MOP600,001 and above	12%

Note: Companies incorporated in Macau fall into two groups. Companies in group A must adhere to proper accounting requirements and maintain capital levels of at least MOP1,000,000. Companies in group B are either filing their tax returns for the first time or do not meet the capital requirements to be included in group A. Companies in group B are taxed based on assessed profits, whilst those in group A are levied on certified tax returns submitted to the Macau Finance Bureau.

Table 2. Latest salaries tax rates in Hong Kong and Macau

HONG KONG SALARIES TAX RATES

Assessable annual income (HK$)		Salaries tax rates (note 2)
From	To	
0	50,000	2%
50,001	100,000	6%
100,001	150,000	10%
150,001	200,000	14%
Remainder		17%
Standard rate (note 1)		15%

Notes
1. The tax assessment is limited to a maximum of the standard rate on the total assessable income before allowances.
2. Progressive tax rates on net assessable income (after allowances and deductible expenses).
3. Hong Kong employers are not required to withhold salaries tax from an employee's income.
4. An employer must prepare and submit an annual employer's return reporting the remuneration earned by all existing employees for the previous fiscal year (1 April to 31 March) to the Inland Revenue Department (IRD).
5. Hong Kong employees are responsible for preparing and submitting an individual tax return to the IRD for a salaries tax assessment and for paying the assessed salaries tax to the IRD direct.

MACAU PROFESSIONAL TAX RATES

Assessable annual income (MOP)		Professional tax rates (note a)
From	To	
0	144,000	0%
144,001	164,000	7%
164,001	184,000	8%
184,001	224,000	9%
224,001	304,000	10%
304,001	424,000	11%
424,001	and above	12%

Notes
a) Professional tax is calculated on the basis of net assessable income (ie income earned by an employee after deducting non-taxable income and then a 30% fixed deduction) at the above progressive tax rates. The amount of professional tax due is subject to a 30% waiver according to the tax relief measures.
b) ***Withholding taxes***
An employer must withhold the tax amount payable from the employee's income. The withheld tax should be paid quarterly to the Finance Bureau in January, April, July and October.
c) ***Filing taxes***
An employer must prepare a quarterly professional tax return and an annual employer's return to report the remuneration earned by all employees for the quarter and the calendar year. The quarterly return must be submitted to the Finance Bureau in January, April, July and October for the previous quarter, and the annual return must be submitted in January or February for the previous year.

There is good news for investors making investments in both cities, as they will not have to pay tax twice on a single source of income generated from their engagement in cross-border trade and investment activities. The order on a comprehensive arrangement for the avoidance of double taxation in Hong Kong and Macau was gazetted on 22 May 2020, and the order was tabled at the Legislative Council for negative vetting on 27 May 2020. The arrangement will enter into force after both cities have completed the ratification procedures for the arrangements under the comprehensive avoidance taxation agreement signed by Hong Kong in November 2019.

The highlights of the arrangement are listed below:

- Double taxation will be avoided in that any Macau tax paid by Hong Kong residents in respect of income derived from sources in Macau can be used as a credit against the Hong Kong tax payable in respect of the same income, subject to the provisions of the tax laws in Hong Kong.

- Profit from cross-border shipping, air and land transport that is earned by Hong Kong residents but arises in Macau will not be taxed in Macau.
- If an eligible teacher or researcher employed in Hong Kong conducts teaching or research activities at a recognised education or scientific research institution in Macau, the income they earn, if it is paid by or on behalf of the Hong Kong employer, will be exempt from tax in Macau for up to three years, provided that tax is paid on the income in Hong Kong and any research has been done in the public interest.

As well as the differences in the tax systems and tax rates in Hong Kong and Macau, investors should be aware of the differences in the related legislation in the two cities, as this will influence their investment strategies and their investment or operational costs.

There are significant variations between Hong Kong and Macau in terms of pay scale and pay structure, as well as statutory retirement benefit when hiring talent. The differences between the statutory retirement benefit systems are shown in **table 3**.

Table 3. Retirement benefit systems in Hong Kong and Macau

HONG KONG MANDATORY PROVIDENT FUND (MPF)

The employer is required to set up an MPF scheme for each employee through the appointment of an MPF service provider within 60 days of the date the employment begins. Under the scheme, both employer and employee are required to contribute 5% of the total relevant income (see note) with a cap at HK$1,500 each.

Employment terms	Employer's monthly MPF contribution	Employee's monthly MPF contribution (to be deducted from monthly salary)
Applies to all regular and casual employees employed under full-time and part-time contracts	5% of employee's monthly relevant income, capped at HK$1,500	5% of monthly relevant income, capped at HK$1,500

MACAU SOCIAL SECURITY FUND (SSF)

All employers and employees are required to register with the SSF and pay contributions for employees in the contribution month that immediately follows the date their employment starts.

Employment terms	Employer's monthly contribution	Employee's monthly contribution (to be deducted from monthly salary)	Total monthly contribution
Long-term employee	MOP60	MOP30	MOP90
Casual worker (works at least 15 days in a month)	MOP60	MOP30	MOP90
Casual worker (works less than 15 days in a month)	MOP30	MOP15	MOP45

<u>Payment of SSF contribution</u>
- Long-term employees:
  Contributions for the preceding calendar quarter are payable in January, April, July and October.
- Casual workers:
  Contributions are paid in the month that immediately follows the working month of the employee. For example, if an employee works in January, their contributions should be paid in February.

Note: Relevant income includes wages, salary, leave pay, fees, commission, bonuses, gratuities, perquisites or allowances, housing allowances and other housing benefit paid or payable by an employer (directly or indirectly) to an employee under a contract. It excludes severance or long-service payments.

There are also significant variations between Hong Kong's and Macau's employment-related legislation. The main differences are in the provisions of the Employment Ordinance of Hong Kong (and the Labor Relations Law of Macau), the minimum wage, compensation insurance for employees, and maximum working hours. As employers, investors must keep to the requirements and deadlines for complying with the relevant laws. If they are convicted of failing to comply, they may be fined or prosecuted.

Given that the processes involved in complying with these legal requirements are tedious and labour-intensive, investors may consider outsourcing this work to specialist service providers to give them peace of mind.

On the other hand, the official languages of Macau are Chinese and Portuguese, and all statutory forms and documents are provided in these two languages (whilst the official languages of Hong Kong are Chinese and English). This may trigger demand amongst multinational corporations from English-speaking countries for local professionals or outsourcing service providers who are proficient in the official languages to ensure that they are complying with the local statutory requirements.

Speak to our payroll professionals

Free feel to get in touch to find out how we can help you with a tailored payroll outsourcing solution.

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RECENT DEVELOPMENTS IN THE REGULATORY REGIME FOR VIRTUAL ASSETS IN HONG KONG

In November 2019, the Securities and Futures Commission (SFC) issued a position paper on 'Regulation of virtual asset trading platforms'. The Hong Kong regulator is keeping a close eye on the development of this new sector, virtual assets in Hong Kong, and from time to time it introduces measures to cope with new developments. In this article, we will cover:

- what virtual assets are;
- an overview of the regulatory landscape for virtual assets in Hong Kong;
- the regulatory framework for virtual assets trading platforms; and
- how it affects you.

What are virtual assets?

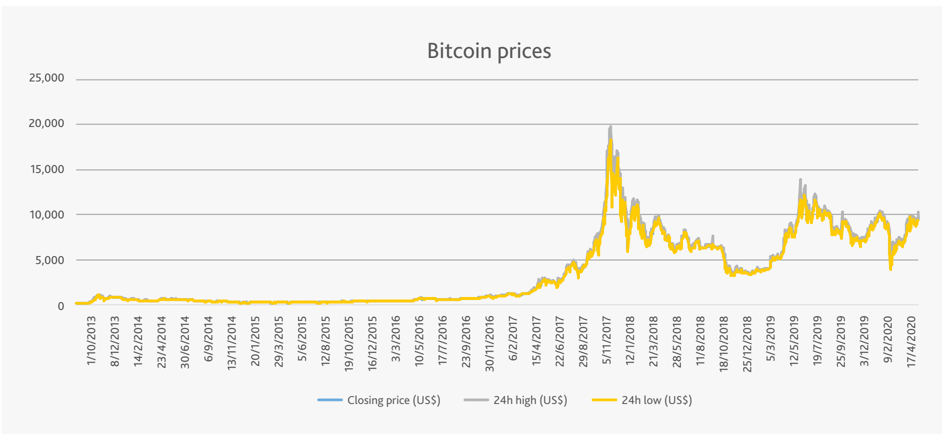
There is no universal definition of virtual assets. According to the SFC, a virtual asset is a digital representation of value, which may be more commonly known as 'cryptocurrencies', 'crypto-assets' and 'digital tokens'. Globally, virtual assets were estimated to have a total market capitalisation of US$200 billion to US$300 billion earlier last year. There were around 3,000 digital tokens and over 200 virtual asset trading platforms.

A cryptocurrency (or crypto-asset) is generally understood to be a digital asset that is designed to work as a medium of exchange. Individual coin-ownership records are stored in a digital ledger or database using strong cryptography in order to secure transaction records, control the creation of additional digital coin records, and verify the transfer of coin ownership. When implemented with decentralised control, each cryptocurrency works through distributed ledger technology, typically a blockchain.

A well-known cryptocurrency is Bitcoin. It all started with a white paper, *Bitcoin: A Peer-to-Peer Electronic Cash System*, written by Satoshi Nakamoto in October 2008. The paper showed that a purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another, without going through a financial institution.

What makes virtual assets attractive is the volatility of their trading prices. The chart below shows the prices of Bitcoin from October 2013 to May 2020. We can see that:

- prices can fluctuate from US$83.32 (Oct 2013) to US$19,783.21 (Dec 2017);
- daily closing prices changes can fluctuate from +36% to -27%;
- intra-day price changes can range from 0.0% to 57%;
- in 2020, Bitcoin prices are still fluctuating widely:
  - closing prices rose from US$7,251 on 31 December 2019 to a peak of US$10,364 in mid-February 2020 (+43%); and
  - the price then closed at US$6,483 on 31 March 2020 (-37%) and rose again to US$9,616 on 31 May 2020 (+48%).



An overview of the regulatory landscape for virtual assets in Hong Kong

General

- Well-established exchanges in the US have begun offering Bitcoin futures, which have been regulated by the Commodity Futures

Trading Commission since 2017.

- Since then, there has been an increase in other forms of virtual asset derivatives, including cryptocurrency options, swaps and contracts for differences. This is how the virtual asset space gradually moved into the financial markets and within the regulatory regimes for securities.
- *Financial institutions:* With the entrance of greater numbers of traditional financial institutions and service providers, the virtual asset ecosystem has steadily grown and become more sophisticated, providing services that are comparable to those of traditional mainstream finance.
- *Custodianship:* Two major concerns are cybersecurity and the safe custody of virtual assets. Platform outages are not uncommon. There have been reports of platforms being hacked, with investors suffering substantial losses.
- *Setting standards:* International standard-setting bodies have been closely monitoring the risks associated with virtual assets and considering how to tackle them.
- *Regulators*: The securities regulators have responded in different ways. Some jurisdictions have banned virtual asset activities, while others have created bespoke regulatory regimes. Many jurisdictions have chosen a more nuanced approach, such as classifying tokens and specifying which types fall within its existing regime. Others have adopted a 'wait and see' approach.

Hong Kong
The SFC has issued a number of statements, press releases and circulars to clarify its regulatory stance on virtual assets. These include:

- a statement on 'initial coin offerings', issued on 5 September 2017;
- a circular to licensed corporations and registered institutions on 'Bitcoin futures contracts and cryptocurrency-related investment products', issued on 11 December 2017;
- a press release entitled 'SFC warns of cryptocurrency risks' on 9 February 2018;
- a press release entitled 'SFC's regulatory action halts ICO to Hong Kong public' on 19 March 2018;
- a statement on the 'regulatory framework for virtual asset portfolio managers, fund distributors and trading platform operators', issued on 1 November 2018:
  - app 1: regulatory standards for licensed corporations managing virtual asset portfolios; and
  - app 2: conceptual framework for the potential regulation of virtual asset trading platform operators;
- a circular to intermediaries on 'the distribution of virtual asset funds', issued on 1 November 2018;
- a position paper on the 'regulation of virtual asset trading platforms', published on 6 November 2019; and
- a warning on 'virtual asset futures contracts', issued on 6 November 2019.

Although initial coin offering (ICO) activities in Hong Kong were once taking place, they decreased significantly after the SFC issued a press release to explain its stance and halted an ICO activity in 2018. The ICO transactions were unwound. Security tokens were then removed from virtual asset trading platforms and Hong Kong investors were blocked from participating in ICOs or trading on virtual asset platforms. Virtual asset trading platforms have since found ways to operate so that they fall outside the regulatory remits of the SFC and other Hong Kong regulators.

Investors complained to the SFC that they were unable to withdraw fiat currencies or cryptocurrencies from accounts that they had opened with cryptocurrency exchanges. Some complainants claimed that the cryptocurrency exchanges had misappropriated their assets or manipulated the market, or that technical problems with the exchanges' platforms had resulted in significant losses for them. Dozens of virtual asset trading platforms that are operating in Hong Kong, including some of the world's largest, offer trading in virtual asset futures contracts that are volatile, highly leveraged and therefore extremely risky.

In November 2018, the SFC decided to pursue a new approach in order to bring certain virtual asset activities, in which the investing public is involved, into its regulatory net under its existing powers. The approach included measures to regulate fund management, distribution and virtual asset trading platforms. The regulatory developments in these areas are set out below.

Measures that apply to the fund management and distribution of virtual assets funds
The first strand of this approach tackles the management and distribution of funds that invest wholly or partially in virtual assets. SFC-licensed portfolio managers who intend to invest more than 10% of a mixed portfolio in virtual assets will need to observe the additional requirements set out in the SFC statement issued on 1 November 2018. In a separate circular, the SFC also set out the expected standards for licensed corporations that distribute virtual asset funds. The combined effect of these measures is that investors' interests will be protected at the fund management level, the distribution level, or both.

Measures that apply to virtual asset trading platforms
The second strand tackles centralised virtual asset trading platforms. The regulatory framework set out by the SFC was designed to be applied to a centralised virtual asset trading platform operating in Hong Kong that trades virtual assets including at least one security token. The SFC set out a conceptual framework for the regulation of virtual asset trading platforms in November 2018 and a position paper on the regulation of virtual asset trading platforms in November 2019. The latter sets out a regulatory framework for virtual asset trading platforms, which covers the licensing regime, supervisory regime, regulatory standards, and terms and conditions for operators of virtual asset trading platforms.

Framework for the regulation of virtual assets trading platforms
The licensing regime

The activities of the operator of a centralised platform that provides trading services in non-security tokens only will fall outside the SFC's jurisdiction. In recognition of this, the SFC introduced a regulatory framework that seeks to bring virtual asset trading platforms interested in its regulatory net. Those platforms need to offer the trading of at least one security token. The platform operator would then fall within the jurisdiction of the SFC and require a licence for type 1 (dealing in securities) and type 7 (providing ATS) regulated activities.

As long as the platform meets the other licensing requirements, including the fit and proper criteria, the SFC may then grant a licence to a qualified platform operator to carry on its virtual asset trading business.

The supervisory regime

For a licensed platform operator, its infrastructure, its core 'fitness and properness' and the conduct of its virtual asset trading activities should be viewed as a whole. Although trading activities in non-security tokens are not 'regulated activities', *the SFC's regulatory remit over all of these aspects of platform operations will be engaged once a platform involves trading activities* in security tokens, even if these are only a small part of its business. Trading activities involving non-security tokens are likely to be intermingled with those involving security tokens, forming part and parcel of an integrated business.

Under section 116 of the Securities and Futures Ordinance (SFO), the SFC must refuse to grant a licence unless it is satisfied that the applicant is fit and proper. Therefore, when assessing a platform operator's licence application, the SFC will take into account the manner in which the platform conducts its entire virtual asset trading business, in particular whether it follows (or is willing and able to follow) the expected regulatory standards (see below).

Further, the SFC will require a platform operator to ensure that all virtual asset trading business activities (relevant activities) that are conducted by its group of companies and actively marketed to Hong Kong investors, or that are conducted in Hong Kong, are carried out under a single legal entity licensed by the SFC.

Regulatory standards
Licensing conditions

If the SFC decides to grant a licence to a qualified platform operator, it will impose licensing conditions to address the specific risks associated with the platform's operations. The licensing conditions which may be imposed under section 116(6) of the SFO are set out below.

a) The licensee must only provide services to professional investors.
b) The licensee must comply with the attached 'Terms and Conditions for Virtual Asset Trading Platform Operators' (as amended from time to time).
c) The licensee must obtain the SFC's prior written approval for any plan or proposal to introduce or offer a new or incidental service or activity, or to make a material change to an existing service or activity.
d) The licensee must obtain the SFC's prior written approval for any plan or proposal to add any product to its trading platform.
e) The licensee must provide monthly reports to the SFC on its business activities in a format as prescribed by the SFC. The report must be submitted to the SFC within two weeks after the end of each calendar month and additionally upon the SFC's request.
f) The licensee must engage an independent professional firm acceptable to the SFC to conduct an annual review of its activities and operations and prepare a report confirming that it has complied with the licensing conditions and all relevant legal and regulatory requirements.

A licensed platform operator must comply with all licensing conditions imposed on it when conducting any relevant activities. Any breach of a licensing condition would be considered 'misconduct' under Part IX of the SFO. Breaches may also reflect adversely on the fitness and properness of a platform operator to remain licensed and may result in disciplinary action by the SFC, such as revoking the operator's licence, or issuing a public reprimand or a fine.

Terms and conditions for operators of virtual asset trading platforms

The SFC has set out key terms and conditions for the platform operators. These cover:

a) safe custody of assets (covering the trust structure for asset-holding, hot and cold wallet operations, insurance requirements and private key management);
b) AML/CFT and KYC requirements;
c) prevention of market manipulation and abuse;
d) accounting and auditing;
e) risk management; and
f) conflicts of interest.

How does this affect you?

If you are an investor, you need to understand:

- that virtual assets, virtual assets funds, related futures or securities may or may not be regulated;
- that prices of virtual assets and related products can be very volatile;
- the nature of the virtual assets or cryptocurrency before investing; and
- the creditability of the services provider.

If you are a cryptocurrency trading platform service provider, you may need to review your services model and determine whether you can fulfil the SFC's requirements for a virtual assets trading platform when applying for a licence.

In general, if you are a licensed corporation or cryptocurrency-related services provider, you may want to consider reviewing your services model to see if it falls into and needs to comply with the SFC's regulatory regime. Cryptocurrencies/virtual assets are relatively new business areas, and the regulatory environment is changing. Consider seeking professional help if necessary.

For more information about the regulatory developments that affect virtual assets or other regulated activities, please contact Peter Pang, Director of Risk Advisory at peterpang@bdo.com.hk or +852 2218 3813.

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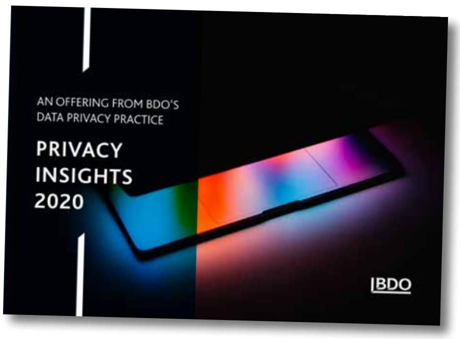
PRIVACY INSIGHTS 2020

Many international organisations are struggling to become compliant with applicable data privacy legislation in all countries where they have activities. The increase in cyber-attacks since the start of the pandemic has even made it more relevant to stay abreast of changing laws and regulations. The impact of COVID-19 is clear on privacy laws: it is not enough to maintain a status quo, on the contrary, all companies need to comply with the laws and regulations around the world.

To help you keep track of the latest legislation changes, BDO has prepared the 'Privacy Insights 2020', a white paper focusing on global data privacy regulatory insights. In this white paper, our experts provide a summary of current data privacy obligations along commentary, from a sample of countries and jurisdictions where BDO has substantial privacy expertise. If your wish to read more about the white paper, please visit: https://www.bdo.com.hk/en-gb/insights/research/data-privacy-insights-2020



BDO DATA PRIVACY SERVICES

BDO is pleased to introduce our new Risk Advisory services line – Data Privacy Services. As companies are increasingly facing reputational risk, enhanced scrutiny and legal and financial consequences for mismanaging personal identifiable information, protecting data privacy through internal control measures and cybersecurity resilience become the top priority. BDO offers full range of data privacy services including managed services for data privacy, data privacy assessment, implementation and remediation of data privacy management mechanism, and technology support. We partner with our clients to ensure compliance with data privacy regulations while using a pragmatic approach to ensure a cost-effective and efficient road to compliance. For more details, please visit: https://www.bdo.com.hk/services/advisory/risk-advisory/data-privacy-services

WHAT SHOULD A COMPANY DO WHEN FACING A POTENTIAL TRADING SUSPENSION?

Today, it is not uncommon for the trading of shares in companies listed in Hong Kong or the United States to be suspended. Although such suspensions can stem from positive inside information pending to be released (eg about mergers or acquisitions), this article focuses on suspensions resulting from negative factors. In particular, reports published by active short sellers and orders from the regulators due to allegations against listed companies have led to many trading suspensions in recent years.

Short sellers' reports

There has been an increase in the number of specialised stocks research firms, or 'short sellers', participating in the equities and capital markets. Their targets span the globe and are listed on a variety of stock exchanges. US-listed Chinese companies were once popular targets, and there seems to have been a recent resurgence of this phenomenon, with allegations of fraud and misconduct being made against a number of US-listed Chinese companies in the beverage, education and media-streaming industries. At the same time, short sellers have accused Hong Kong-listed issuers of unreasonable or connected-party transactions.

Accusations and negative reports published by short sellers should not be taken lightly. Preparation and timely reactions are essential. If a company does not have quick and adequate measures for responding to short sellers' reports, these reports can trigger actions by the regulators, who may suspend trading of the company's shares with immediate effect. Indeed, in some cases, listed companies facing accusations by short sellers have eventually been delisted or have gone into restructuring or liquidation.

Once a company becomes the subject of a short seller's report, it should respond swiftly. The report should be studied in detail. Substantiated and factual explanations should be disclosed and announced to clarify any issues highlighted in the report, regardless of whether the allegations are unfounded. The company should also be ready to make further clarifications if the short seller releases additional accusations or reports to counter or rebut the company's explanations. When a company takes appropriate and responsive action to deal with this, the regulators may not need to order a trading suspension. In some previous incidents, when companies made credible and justifiable clarifications, their stock prices even soared to levels exceeding the previous prices before the publication of the short sellers' reports.

Auditors' queries

Apart from short sellers' reports, in recent years there have been more cases in which the auditors of listed companies have raised concerns about the financials being reviewed. Typically, if the auditors encounter any issues while auditing the prepared financial statements and corresponding records provided by the company managers, they will flag these up to the audit committee of the listed issuers. If the auditors have not received satisfactory explanations or additional supporting documents after liaising with the company management and the audit committee, they will often send a letter to the audit committee to set out their concerns and the additional procedures they wish to undertake. In many circumstances, they will demand that the audit committee engages an independent forensic accounting services provider to investigate the matters concerned. The auditors will resume their audit procedures after they have been provided with satisfactory findings and recommendations by the independent forensic accountant.

Most companies dealing with such incidents form an independent investigation or special committee, which usually consists of all the independent non-executive directors, to commission, direct and supervise an independent review of the questionable areas raised by the auditors. The independent or special committee usually immediately enlists assistance from professionals (including independent financial advisers, solicitors, independent internal controls reviewers and forensic accountants) to address the auditors' queries. The independent forensic accountants propose and agree with the committee a specific scope of work for the investigation. Assistance and cooperation procured by the listed company in terms of providing the relevant documents and information and arranging access to the relevant personnel and premises for the forensic accountants to perform their work are crucial for ensuring that the investigations are completed as quickly as practicable. The independent forensic accountants report their investigation findings directly to the committee. The committee then forms an independent view on the matters raised by the auditors. Usually a series of remedial actions, such as reinforcing control procedures and strengthening management oversight, are then implemented by the company. Such information will usually be formally disclosed by means of announcements made by the company.

The auditors then assess whether the observations of the investigation and remedial measures can address their concerns. Trading will not be suspended if a company can satisfy the auditors' concerns, the auditors can complete their audit to form an opinion on the company's financial statements, and such information is released before the deadlines for announcing results and publishing annual reports as stipulated in the listing rules. Otherwise, as seen in plenty of cases, the suspension begins and the countdown to HKEx's stipulated deadline for resuming trading will start. Reviewing matters to address the auditors' queries takes time, and the regulators may raise additional queries about a company's audited financials or whether it is appropriate for the existing executive directors or senior managers to continue in their roles. As such, it may be difficult to deal with these time-consuming matters before the company's shares can be traded again.

Lawsuits and whistle-blowers

Litigation against a listed company can also raise concerns for the regulators about whether a company is still viable for listing on the stock market. Criminal litigation against executive directors may give rise to doubts about the integrity of the company's management and whether the managers are fit and proper for continuing their duties. Civil claims for large damages against a company may result in going concern and solvency problems if such claims are crystallised and court judgements turn out to be unfavourable for the company. In such cases, the regulators would not be slow to compel the company to suspend trading of its shares.

The regulators may also intervene before a company's initial public offering. It is not surprising to see a listing candidate abort its IPO because it cannot address concerns arising from anonymous whistle-blowers who have reported an alleged misdemeanour by the company to the regulators.

Responsiveness and transparency are key to avoiding suspensions

Companies facing the risk of trading suspensions often need to address and resolve allegations from short-sellers, whistle-blowers or informants, auditors' concerns, adverse litigation and also queries posed by the regulators. The importance of directors responding appropriately to such matters cannot be emphasised enough. It is critical to respond to short sellers by providing prompt feedback and clarifications that are supported by valid facts. It is also crucial to form independent committees and teams of specialised professionals to address the auditors' concerns. Putting contingency plans in place ahead of a crisis resulting from losing a significant court case is essential. Needless to say, communicating with the regulators in a responsive fashion and being proactive in providing credible and justifiable clarifications are of paramount importance. Last but not least, being transparent and keeping investors, creditors, customers, employees and other stakeholders and the market informed in a timely manner are key to a company's continued listing and its ongoing prosperity.

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UPCOMING AMENDMENT TO STATUTORY MATERNITY LEAVE

The article we published in the January 2019 issue of APERCU updated readers on the government's proposal to extend statutory maternity leave from the current 10 weeks to 14 weeks.

The Legislative Council passed the labour bill for extending statutory maternity leave on 9 July 2020, which is good news for female employees in Hong Kong.

Under the amendment, the government will fund the cost of the extra four weeks' maternity leave pay by reimbursing employers on a monthly basis. The additional salary costs reimbursed will be capped at HK$80,000 per employee (more than double the amount proposed previously, which was capped at HK$36,822 per employee).

The government has also updated the definition of miscarriage so that a female employee who loses her baby at or after 24 weeks of pregnancy, rather than 28 weeks, will be entitled to maternity leave.

The above amendment is expected to take effect by the end of 2020.

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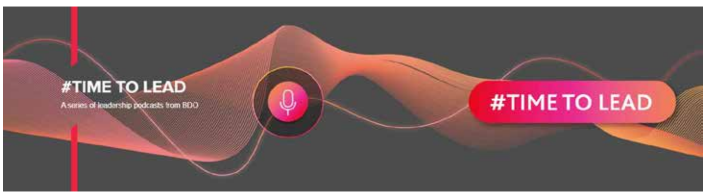
#TIME TO LEAD - BDO LEADERSHIP PODCASTS

We are pleased to introduce #TIME TO LEAD, a new series of leadership podcasts from BDO.

As this new economic reality starts to take hold, a high level of strategic reflection remains crucial for businesses to remain resilient and forward-looking. Now, more than ever, business leaders need to demonstrate this resilience – and that they can not only respond effectively in this time of crisis, but recover and thrive throughout it and into the future.

In the weekly podcasts, the global leaders of BDO share their insights in different topics, such as the Asian resilience, digital acceleration, globalisation and the mid-market. If you wish to listen to the podcasts, please visit https://www.bdo.global/en-gb/microsites/timetolead-podcasts/homepage.



TAKE A SNEAK PEEK INTO THE FUTURE OF BUSINESS: SEARCHING FOR THE NEW NORMAL

Conquering the coronavirus and its aftermath will definitely be the greatest challenge for humanity in 2020. Despite continuing public-health concerns, the strong desire for economic activities to resume is compelling governments across the globe to reopen borders and alleviate social distancing restrictions in a swift yet coordinated manner.

At the time of writing (in late June), the general public in Hong Kong have become slightly less anxious about infection risks than in previous months, businesses executives are more optimistic about the economic outlook, and consumer spending seems to be getting back on track.

Nevertheless, with the emergence of a third wave of the coronavirus outbreak, business leaders can no longer remain silent or stay passive – it is time for them to get their act together and put on their 'thinking caps' to explore different ways of operating their businesses, especially now that living with coronavirus is the new normal in day-to-day life. The economic and public health situation is unlikely to improve until a viable coronavirus vaccine is introduced.

In order to make an effective comeback in an economically ruptured, post-pandemic world, *innovation*, *courage*, *persistence* and *determination* are essential: those who are first to adapt to the new normal will be the pioneers in embracing new opportunities amidst the challenges.

For companies to survive through the COVID period, and to thrive post-COVID, business leaders should start reviewing and examining the critical elements of running an effective and sustainable business. By considering the following five key elements, business leaders can better *shape* their businesses and workforce; *adapt* to the new normal; *embrace* it; and continue to *manage* sustainability going forward.

1. In-depth 'remote-ability' assessment

Telecommuting has become the new blueprint for operating a business, now and in the future. Most businesses are considering implementing policies on working from home or remote working, for reasons such as cost-effectiveness over the long term and increase competitive attractiveness when hiring and retaining talent. As a starting point, businesses and HR leaders should ask themselves the following questions before considering whether (and to what extent) they should implement remote working:

i) Which roles would work well and smoothly on a remote basis? Which ones should still be carried out in the office?
ii) Is the company technologically prepared to introduce and promote remote working? For example, does it have the right infrastructure, systems and tools?
iii) What are the key attributes and skills required for remote working? How to evaluate whether the existing employees possess the required qualities? What can companies do to transform their employees with their current skills and roles so as to help them to stay relevant?
iv) How great will the overall impact on the company's business and operations be if the company were to implement and practise remote working? What will the current, short–term and long-term financial impacts be, and what potential risks are involved during and post implementation?

2. Assess the effectiveness of current performance evaluation systems

With the increase in the public's general awareness and knowledge of preventing the spread of COVID-19 (eg wearing masks, sanitising hands and maintaining personal hygiene), the mandatory preventive measures may begin to ease. This, of course, is highly dependent on the magnitude of the pandemic within each respective country or city. Nevertheless, it is expected that travel restrictions will remain in place until the infection rate is under control, and it will be the norm for the majority of the workforce to work from home, now and in the foreseeable future.

With remote working being unexplored territory for some businesses, HR leaders are struggling to identify effective ways of measuring their staff's performance and productivity. Employees are no longer working in offices, where managers and supervisors can physically observe, monitor and assess their performance. With employees practising remote working and/or working under a flexible or irregular hours arrangement, traditional KPIs and performance evaluation criteria may no longer be appropriate, as the work mode and settings have changed entirely.

First, businesses will need to assess whether the current performance appraisal system, performed on an annual or semi-annual basis is appropriate. Secondly, it is crucial to identify which assessment criteria remain relevant and introduce new ones that allow an accurate and fair assessment of the performance and productivity of the remote workforce. Thirdly, the evaluation weightings towards each of the assessment criteria should be reassessed and adjusted accordingly. Companies should also consider introducing formal task-based or project-based assessments, which will provide 'in-the-moment' feedback, with the performance ratings and appraiser's comments documented properly and communicated to employees in a timely manner. All such assessments must be combined into an annual performance appraisal when promotion, progression and salary adjustments are being considered.

In addition to implementing task- or project-based assessments, supervisors should find effective ways of observing and managing the performance of their subordinates. Examples include setting shorter deadlines and milestones, scheduling more frequent progress reviews, and keeping track of status reporting and feedback arrangements. More frequent evaluations and reviews will allow managers to make informed and timely decisions, and, more importantly, to halt things if they are going wrong or in a direction that could expose the company to financial losses and reputational risks.

Essentially, visionary business owners should see that now is a prime time to nurture a stronger team by assisting employees to develop new and diversified skills in order to stay relevant; promoting the culture of continuous learning; and providing opportunities to unleash the potential of team members, allowing them to excel and acquire new exposure and experience so they can better adapt to and take the lead in the new normal.

Furthermore, businesses should also consider including the concept of *team evaluation* in employees' individual performance evaluations. This is especially relevant for managerial and supervisory staff who have a team to manage, as team evaluations encourage managers to supervise in an efficient and effective manner. Supervisors should be assessed on the basis of their performance in identifying team members' key character traits and most valuable skills; unleashing team members' work potential; organising communication, reporting and deliverables in a coordinated manner; and providing opportunities that best utilise team members to optimise the team's overall performance. Further, businesses are likely to continue operating with their teams working in a dispersed manner. The introduction of team evaluation will certainly be a catalyst for bonding team members, building team spirit and morale, and creating a stronger sense of belonging.

3. Determining the key attributes and critical skills of new hires

Employers and hiring managers are conditioned to look for candidates with typical key attributes in areas such as education, qualifications, experience and presentation. Yet, in this new era, an ideal employee should possess the following eight additional key qualities:

i) Self-discipline and the ability to work independently
ii) A can-do attitude with high expectations of their own performance
iii) Excellent communication skills
iv) Effective time management skills
v) Resourcefulness
vi) Technology literacy and savviness
vii) The ability to separate work and personal life
viii) Empathy - working as a human, not a robot

As remote working becomes more prevalent, employees' performance and deliverables may no longer be physically monitored and reviewed by their supervisors in the office. Therefore, hiring employees who have the above qualities is essential for greater productivity, better performance and peace of mind.

In addition, recruiters should consider carrying out pre-employment screening to better understand the candidate's background. When shortlisting and hiring, they should conduct aptitude tests and screen candidates intensively to ascertain whether they possess a strong ethical mindset coupled with risk and compliance acumen. These special personal traits are especially important when employees are required to work remotely and independently, without supervision. They are even more relevant if the candidate's role and day-to-day work will expose the business to risks associated with information and data security, compliance and confidentiality.

4. Building business resilience and sustainability

Regarding COVID-19 and remote working, many would share the sentiment that the pandemic will come in waves and that this is the new normal we would have to live with. We should ask ourselves: '*If another crisis or catastrophe were to occur, sabotaging normal business operations, are we prepared?*'

In order to tide themselves over during the pandemic and be sustainable, companies should start to become flexible and build resilience into their business operations. The priority for most, if not all, is to survive and sustain. Businesses should start to assess whether their existing business operations incorporate the following:

- *Business contingency plan*: The plan should be professionally prepared, implemented, regularly reviewed, tested, updated and circulated to all key shareholders.
- *Flexible working arrangements*: Prior to the pandemic, many businesses did not favour remote working arrangements. However, the current crisis has compelled businesses to challenge themselves and enable remote working arrangements in a controlled manner.
- *Strategic functional dispersal arrangements*: This great practice that has been introduced as a result of COVID, has a similar meaning to the proverb 'don't put all your eggs in one basket'. The practice involves strategically dispersing a division or function across different locations, with the aim of reducing the risk of cross-infection. For larger companies with the luxury of having offices in different locations or on different floors, the management should consider breaking each division into sub-teams and arranging for them to work at different places. For smaller companies, a combination of remote working and working in the office should be considered. This arrangement will allow a division or function to maintain its operation without significant interruption, even if one of the sub-teams is idled under quarantine or facing other types of unexpected disruptions.
- *Digital transformation*: With remote working becoming more viable in the future, businesses need to prepare themselves for a digital transformation. This may also give corporate users the impetus to explore more opportunities and innovative ideas for doing business in the digitalised workspace.

5. Future-perfect team - your resourcing strategy for tomorrow

'If you want to go fast, go alone; if you want to go far, go together.' This African proverb best describes how a company's resourcing strategy affects its growth.

Companies should seek opportunities to make changes in order to survive in a forever-changing world. For a company to go both fast and far, it is crucial to implement a flexible, sustainable and affordable resourcing strategy that comprises four key components:

i) The 'core team'
ii) Outsourcing
iii) Embracing the gig economy and engaging an alternative workforce
iv) Strategic collaboration with business partners

At first glance, the conditions 'go alone' and 'go together' seem to be contradictory. This may not be the case in the business world - businesses can maintain a core team, which is responsible for putting together and driving business strategies, while outsourcing the repetitive and non-value-adding tasks and/or supporting functions to keep the structure lean. They can engage an alternative workforce to tap into the right talent with the necessary skills

and knowledge at the right time; and choose to collaborate with trusted business partners in order to complement each other.

Every company is different, each company shall implement their resourcing strategies by utilising the four components in a different way and with different weightings towards each component.

We continue to foresee a greater shift towards both functional and resource outsourcing as more companies of different sizes begin to reengineer their hiring strategies in order to minimise their employment-related obligations and reduce the burden of managing staff turnover. Collaborations with business partners and sharing resources and talents are becoming major drivers of success as these allow organisations to meet certain needs at specific points of time, helping the organisation go 'far' without losing its speed and agility to adapt and advance.

Optimism in the time of COVID-19

For companies around the world, calling the coronavirus a disruption to business is an understatement. But when we look at history, necessity is very often the driver of innovation. What we need to focus on is 'finding the silver lining'!

Although the recovery process is likely to be long, and businesses are unlikely to be able to recover damages in the short term, the possibilities and opportunities that follow cannot be ignored or underestimated. Since the time of the internet boom decades ago, technology has enabled new ways of electronic communications. Governments, entities and individuals are now connected more seamlessly than ever before. Businesses are also exploring alternative ways of operating that are far different from their traditional processes, at a much greater speed and scale than before. One example of success is that of a Chinese cosmetics company that was forced to close 40% of its stores during the height of the pandemic. However, they made a well-judged and speedy decision to deploy more than 100 beauty advisors who had been working in physical stores to become online influencers. They have successfully engaged customers virtually, which resulted in an increase in sales of 200% compared to the previous year just for the city of Wuhan alone, the most affected city in the Mainland during this pandemic. This is an excellent example of transforming the workforce to help employees stay relevant, which ultimately provides positively to the whole business.

In conclusion, COVID-19 is forcing workplace innovation, with businesses trying to do more with less. It is crucial, therefore, for all businesses to change, transform and restructure as needed for the future, rather than being repentant about losses suffered during the crisis. How the crisis will continue to unfold is uncertain, but the five elements described in this article will offer business leaders a glimpse of how businesses should respond and adapt to the new normal, a normal guided by a virus that changed the world.

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BDO IS THE DOUBLE AWARDS WINNER AT THE ASIA RECRUITMENT AWARDS 2020

BDO is pleased to announce that we have again been crowned as a Double Awards Winner at the Asia Recruitment Awards 2020 (ARA 2020), following our success in winning the Gold Award in Best Client Service in 2019.

This year, we have entered into two categories of the ARA 2020, and are extremely proud to be crowned, **Gold Award – Best Client Service** and **Silver Award - Best Temporary Recruitment Agency**.

ARA commenced in 2015 and has garnered an immense following by HR professionals as the largest regional recruitment awards event for the entire recruitment community in Hong Kong and Greater China. This is the second time our firm joined ARA and winning these awards represents great recognition of our dedicated efforts in upholding our mission to provide 'exceptional client services'. We also appreciate our clients for their unwavering support and trust over the years!

ADDRESSING PRIORITIES FOR HEALTHCARE MANAGEMENT IN A PANDEMIC

Healthcare organisations in Hong Kong have been performing admirably during the current novel coronavirus pandemic, despite not having enough trained medical professionals, enough beds and isolation facilities, or an inventory stocked with adequate resources and medicines. These major gaps in healthcare investment are undermining health and welfare in Hong Kong and around the world, putting global security and economic development at risk. The coronavirus outbreak has been a pressure test of Hong Kong's healthcare system. It is also a wake-up call for hospitals, both public and private, and other primary healthcare institutions to look harder for ways to innovate faster and collaborate in the hope of staying resilient in the face of the unprecedented pace of this pandemic.

The current challenges

The operational challenges during this challenging time have shifted the risk profile of the healthcare industry, forcing a more focused approach to prioritising and responding quickly to key risks. Improving financial performance and operating margins is likely to remain a key issue, but the pandemic has brought issues such as supply chains, emergency management and technology to the forefront. With these areas of urgency come risks and potential challenges. The areas attracting a broader and stronger focus include supply chain risk, emergency management systems, and the ongoing challenge of enhancing the use of digital technology to improve business functions and explore alternative methods of maintaining the effective delivery of healthcare services.

Establishing a sustainable supply chain

As the world grapples with the coronavirus, demand for essential medical supplies is outstripping supply. This increased risk of shortages has put the supply chain under pressure. The healthcare supply chain is particularly complex, as it involves a number of independent stakeholders, starting with the manufacturer and ending with the hospitals that acquire the products through a wholesaler, an importer or an organisation contracted to make purchases on a hospital's behalf. Various regulatory bodies are also involved in the healthcare supply chain; for example, drug oversight that specifically determines whether a drug is fit for consumers or patients to use. Not to mention the private healthcare insurance companies, which determine whether providers will be reimbursed for using medical products on specific patients.

When setting budgets and selecting products, healthcare organisations frequently have to take numerous requests and concerns from every independent human supply chain link into consideration, making the supply chain management process inefficient and costly. Ensuring supply chain continuity is important for minimising shortages and obtaining urgently needed medical supplies, especially in challenging times like these. To avoid inefficiencies, escalating costs and missed opportunities, hospitals and medical institutions need to invest in implementing data analytics and automated tools in their daily processes and in sharing that data with their supply chains. For example, sharing data and analytics from tracking and monitoring devices installed on medical products can help hospitals to better understand their inventory needs, minimise write-offs, improve workflows and more accurately predict their future medical needs. Data from the revenue cycle can be more closely aligned with the supply chain to provide better visibility on product demand and consumption activity, which helps healthcare organisations to minimise inventory shortages and stockpiling while eliminating waste and reducing costs. It is also worth considering automated control tools, such as inventory early warning systems with indicators that capture measurements of daily operational medical needs and their associated inventory and storage costs, minimising shortages while reducing the risks associated with overstocking.

Establishing an emergency management system

The goal of an emergency management system is to ensure operational effectiveness and efficiency in an emergency by creating a plan that is flexible, quick to put in place and based on emergency management objectives. It includes clear information on responsibilities, oversight and the coordination of internal resources. An emergency management system in healthcare is essential for preventing and effectively reacting to emergencies. It is also vital for avoiding and mitigating the negative impact of an incident through cross-functional collaboration. The key elements of an effective emergency management system must be based on clear governance oversight, with roles and responsibilities aligned with emergency management objectives. Frequent risk assessments of ongoing issues and incident outcomes must be performed to assess the reliability and validity of the contingency plan, make any necessary improvements and identify other emerging risks that may surface during the process. Management plans based on prioritised risks can then be adjusted and formulated. The execution of emergency plans and standard operating procedures when responding to incidents should be monitored by a dedicated response team and communicated openly. Meanwhile, reporting on healthcare incidents should be documented when possible. Such reports can serve to enhance and develop preventative measures and establish a mitigation system to reduce the negative impact of any future crisis.

Accelerating the development of telemedicine and telehealth

In the wake of the coronavirus pandemic, Hong Kong has seen a spike in the demand for online healthcare services. Telemedicine services are remote consultations and diagnoses provided by doctors, primarily for patients who do not require emergency care but need a professional opinion or who have stable but chronic conditions and need repeat prescriptions. Although telemedicine is still not as widely used in Hong Kong as it is in mainland China or in the US and other Western countries, more patients in Hong Kong are seeing it as a solution that can meet their needs while avoiding the risk of being infected by the virus while visiting their doctor or hospital. At the same time, it can relieve pressure on offline medical services provided by hospitals.

Although online healthcare can potentially to become one of the solutions to the problems faced by the healthcare system in Hong Kong, promoting it is still challenging. Online healthcare services will continue to face current and unforeseen policy restrictions. Issues such as privacy online, the confidentiality of medical records, the doctor-patient relationship and the evaluation and treatment of patients may make it difficult for telemedicine to compete on the same level as traditional consultations. Online and offline medical services also need to be connected to achieve a smooth transition between the two. More importantly, going forward, as we increasingly rely on medical devices and technologies that concern the lifestyle and health of patients, it is essential that all systems and networks are managed and rigorously tested to ensure their proper operation, especially in times of emergency.

Strengthening information security capabilities

For healthcare organisations, the increased adoption of digital technology to address the risks and potential challenges in the supply chain, establish an emergency management system and explore alternative healthcare delivery service methods requires them to fortify their information security capabilities. On the basis of the sharp increase in the frequency of network security breaches and cyberattacks, and the coverage this has been given in the media, criminal cyberattacks utilising malware, ransomware and phishing are some of the most impactful issues affecting the healthcare industry. The industry is especially vulnerable because of the number of devices that healthcare systems and clinicians use. Once these have been breached, cybercriminals can reap a large profit from the health data they can access. Healthcare organisations need to understand the source of the vulnerabilities and how they can minimise their exposure to threats by assessing the security design and operational controls. To help reduce the financial, reputational and regulatory impacts of a breach, it is important to have a cybersecurity system that ensures foundational compliance (eg security risk analysis), includes the operating effectiveness of controls (eg penetration testing, governance of data interfaces) and has the ability to respond to incidents (eg disaster recovery plans and testing, incident response readiness). This, alongside adequate resources and optimal procedures for cybersecurity efforts can provide meaningful insights to the boards and senior management of healthcare organisations.

During this pandemic, collaboration and transparent data sharing may be the keys to improving the capacity and efficiency of supply chain management and continuity. By establishing and improving emergency management systems, hospitals may be able to take previous incidents, analyse the cause, assess its threat impact and enhance countermeasures to reduce the probability and impact of a future crisis. Use of internet medical services such as telemedicine may become a way to ease the overstretched public hospitals system and improve the delivery of healthcare services, as long as the construction and connectivity enable medical records to be shared and accessed on a health data platform. In the light of the pandemic, Hong Kong is seeing the need to elevate and transform its healthcare system to address some of the shortcomings of the current system. The use of technology, coupled with a complex healthcare structure in a regulated environment, puts a necessary focus on information security. Whether healthcare organisations can address these challenges remains to be seen.

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BDO GLOBAL RISK LANDSCAPE 2020

BDO Global Risk Landscape 2020 report has been published to announce the survey results of over 500 C-suite suite executives across EMEA, APAC and Americas, tracking how executives' concerns reflect changes to the world around them over time.

According to the survey results, businesses are becoming increasingly vulnerable to reputational risk, with 70% of businesses having experienced an event that has proposed a threat to its reputation. However, many companies remain reactive in their approach, with less than half (45%) of companies believing their crisis strategy is proactive, and over a third (35%) considering themselves to be reactive when it comes to reputational issues. The survey also reveals that businesses are worrying more about the perception of integrity than the practice (integrity washing). A significant 87% of executives believe their organisation is culpable of integrity washing and almost half (49%) agreed with the statement: "Completely, so long as we are perceived to have integrity we do not prioritise putting it into practice." Such act might be an issue that can touch even reputable companies.

Whilst business leaders recognise integrity as an important risk, in terms of other global risks businesses feel least prepared for, economic slowdown (37%) has leapt up the rankings, with computer crime and computer hacking (34%) coming second and business interruption (25%) third.

Three white papers have also been published by our global Risk Advisory teams across the Americas, Asia-Pacific and EMEA to deliver insight and advice on the local risks affecting their markets.

If you would like to obtain a copy of Global Risk Landscape 2020 report and the three white papers, please visit: https://www.bdo.co.uk/en-gb/insights/advisory/risk-and-advisory-services/global-risk-landscape

IMPACT FROM RECENT HONG KONG CREDIT RATING DOWNGRADES

For financial investors in the Hong Kong capital and equity markets, 2020 has been an uncertain and challenging year. The US–China trade war, social unrest in 2019 and the COVID-19 outbreak in the first quarter of 2020 have adversely impacted both the stock market and the economy of Hong Kong. Consequently, Hong Kong recorded a year-on-year contraction of 8.9% in the first quarter of 2020, the steepest contraction for a single quarter since records began in 1974[1].

The international credit rating agencies have taken note of Hong Kong's deteriorating economic position. In January 2020, Moody's Investors Service (Moody's) downgraded Hong Kong's sovereign credit rating by one notch to Aa3 from Aa2[2]. Another major credit rating agency, Fitch Ratings Inc. (Fitch), made a similar move to lower Hong Kong's rating to AA- from AA in April 2020[3]. Hong Kong's latest ratings by the two agencies are at their lowest level since 2007. The agencies expressed their concerns about the continued social unrest issues seen since the second half of 2019, which they deemed to have undermined the city's reputation as an international business hub. Fitch also considered that Hong Kong's gradual integration into China and its closer economic and financial linkages to the mainland justified a closer alignment with its sovereign rating.

Amid the recent intensified disputes and actions between the US and China, it is possible there will be further downgrades by the credit rating agencies. In this article, we will analyse how the valuation of businesses and the capital markets might have been affected by the rating downgrades.

Recent changes in Hong Kong's sovereign rating

In the last decade, the sovereign credit rating of Hong Kong was stable and rated by the three major international credit rating agencies at their highest or second-highest ratings, until the downgrades by Moody's and S&P Global Ratings (S&P) in 2017.

Moody's was the first international rating agency to cut Hong Kong's rating in over a decade. On 24 May 2017, Moody's lowered Hong Kong's sovereign rating to Aa2 from Aa1[4], which the agency cited as the ripple effect from China's rating downgrade to A1 from Aa3. It explained that this was in view of the close economic and financial linkages between the two jurisdictions. In September 2017, S&P also downgraded Hong Kong's sovereign rating shortly after downgrading China's rating[5].

Fitch adjusted Hong Kong's rating downward to AA from AA+ in September 2019[6]. However, this was not induced by any rating change to China but by the persistent social unrest in Hong Kong. While Moody's and Fitch further downgraded Hong Kong's rating by one notch in January 2020 and April 2020, respectively, S&P affirmed Hong Kong's AA+ rating with a stable outlook in June 2020[7].

As shown in **graph 1**, Moody's and Fitch narrowed the credit rating gap between Hong Kong and China to one notch after their recent adjustments to Hong Kong's rating. However, S&P still considered Hong Kong's credit rating to be three notches higher than China's.

Brief introduction to sovereign credit rating

In general, a sovereign credit rating is the opinion of a credit rating agency on the creditworthiness of a given government to repay its debt obligation. It is a forward-looking opinion and takes into account the ability and willingness of a government to repay its debt in a timely manner. Each credit rating agency has its own measurement criteria and systems to formulate a sovereign credit rating, but the key factors considered by the credit

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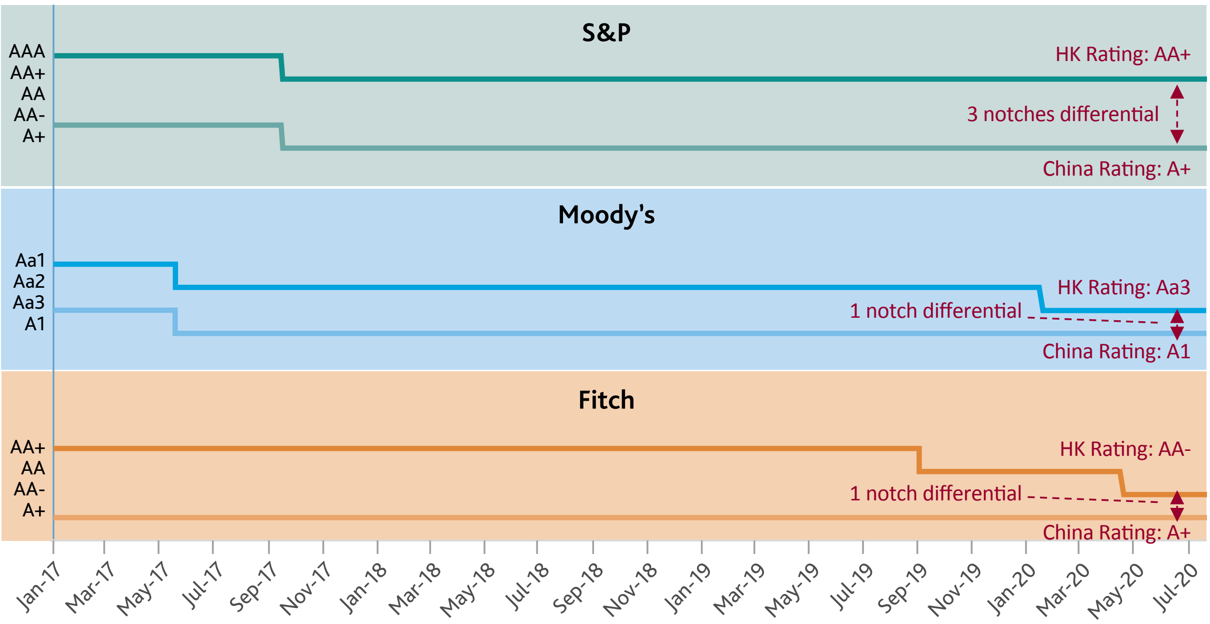
Graph 1: Hong Kong's sovereign rating movements



Sources: Bloomberg and news

rating agencies can be broadly categorised into economic, financial, social and political factors. The sovereign credit rating is further divided into two classes, namely the local currency and foreign currency ratings, to separately measure the ability and willingness of the government to repay its debts denominated in local and foreign currencies. The non-default ratings of the credit rating agencies range from AAA to CC (for S&P and Fitch) or Aaa to Ca (for Moody's), which are further categorised into investment grade and speculative grade (aka 'junk' grade). Under each rating, the agencies denote +/- (for S&P and Fitch) or 1 to 3 (for Moody's) to further differentiate the relative credit strength of the government within the same rating.

Details of the credit ratings by the agencies are summarised in **table 1**.

Valuation impact from credit rating downgrade

Sovereign rating is one of the key measurements of a jurisdiction's credit profile and its risk of default. A change in sovereign rating can have a significant impact on the borrowing cost of the subject territory. Institutional investment funds commonly have their own investment policy that restricts the fund to only invest in bonds with a certain rating or above, or prohibits the fund from investing in any bonds with speculative grade. A credit rating downgrade can trigger investors to dispose of downgraded bonds that they can no longer hold.

During the European debt crisis, the credit rating agencies frequently downgraded their ratings on the European countries in distress, which further intensified the difficulties the countries were facing. As an example, in April 2010, S&P downgraded Greece's sovereign

Table 1: Credit ratings of S&P, Moody's and Fitch

S&P	Moody's	Fitch	Long-term issuer rating meaning[8] (using S&P as example)	
AAA	Aaa	AAA	The obligor has extremely strong capacity to fulfil its financial commitments. The highest rating assigned by the credit rating agencies.	Investment grade
AA	Aa	AA	The obligor has very strong capacity to fulfil its financial commitments. The credit quality has only slight difference to the highest rating.	
A	A	A	The obligor has strong capacity to fulfil its financial commitments but has less financial strength to overcome the adverse effects of changes in economic conditions compared with obligor with higher rating.	
BBB	Baa	BBB	The obligor has adequate capacity to fulfil its financial commitments but any adverse effects of changes in economic conditions are more likely to weaken the obligor's capacity to meet its financial commitments.	
BB	Ba	BB	The obligor is less vulnerable in the near term than other lower rated obligors. However, ongoing uncertainties and exposure to adverse financial and economic conditions could lead to the obligor's inadequate capacity to fulfil its financial commitments.	Speculative or 'junk' grade
B	B	B	The obligor is more vulnerable than the obligor rated 'BB' but the obligor currently has the capacity to fulfil its financial commitments. Adverse financial and economic conditions will probably impair the obligor's capacity or willingness to fulfil its financial commitments.	
CCC	Caa	CCC	The obligor is currently vulnerable and is dependent upon favorable financial and economic conditions to fulfil its financial commitments.	
CC	Ca	CC	The obligor is currently highly vulnerable. This rating is used when a default has not yet occurred but is expected to be a virtual certainty, regardless of the anticipated time to default.	

Source: Issuer credit ratings of S&P, Moody's and Fitch

Reference

8. S&P Global Ratings Definitions: https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352

rating by three notches to junk grade, from BBB+ to B+. This action induced investors to switch their investments from Greek bonds to bonds issued by other nations that were still within the investment grade category. The Greece–Germany credit spread increased by 331 basis points following the downgrade by S&P[9].

Furthermore, the yield of a government's bonds is commonly considered as the base reference rate or risk free rate to formulate the cost of capital, ie the cost of equity and the cost of debt for the valuation of businesses in that jurisdiction. Assuming other factors remain unchanged, a higher government bond yield may lead to a higher required return for business investments. This in turn results in a lower business value when projected cash flows are discounted by a higher cost of capital to arrive at the net present value of the business.

Set out below are the general formulae for the cost of equity and the cost of debt:

$$R_e = r_f + \beta \ x \ EP$$

$$R_d = r_f + CS$$

where

R_e	=	*Cost of equity*
r_f	=	*Risk-free rate*
β	=	*Beta*
EP	=	*Equity risk premium*
R_d	=	*Cost of debt*
CS	=	*Credit spread*

Market reaction to credit rating downgrade

To analyse the market impact from the rating downgrades of Hong Kong, we reviewed the movements of the 10-year Hong Kong Government Bond yield, Hang Seng Index and Credit Default Swap (CDS) of the Hong Kong Government Bond the day after the rating downgrades. These are summarised in **table 2** and **graph 2**:

Table 2: Changes in bond yield, CDS, Hang Seng Index the day after rating downgrades

Date	Rating change	10-year HK Government Bond Yield	5-year CDS on HK Government Bond	Hang Seng Index
24 May 2017	Moody's: Aa1 → Aa2	-4 bp*	+1.75 bp	+202.3 (+0.8%)
21 Sep 2017	S&P: AAA → AA+	-1.7 bp	+0.615 bp	-229.8 (-0.82%)
05 Sep 2019	Fitch: AA+ → AA	+6 bp	-0.415 bp	+175.2 (0.66%)
20 Jan 2020	Moody's: Aa2 → Aa3	-1.6 bp	0 bp	-810.6 (-2.81%)
20 Apr 2020	Fitch: AA → AA-	-5.3 bp	+0.04 bp	-536.5 (-2.2%)
Standard deviation of daily change		4.4 bp	1.48 bp	385.8 (1.56%)

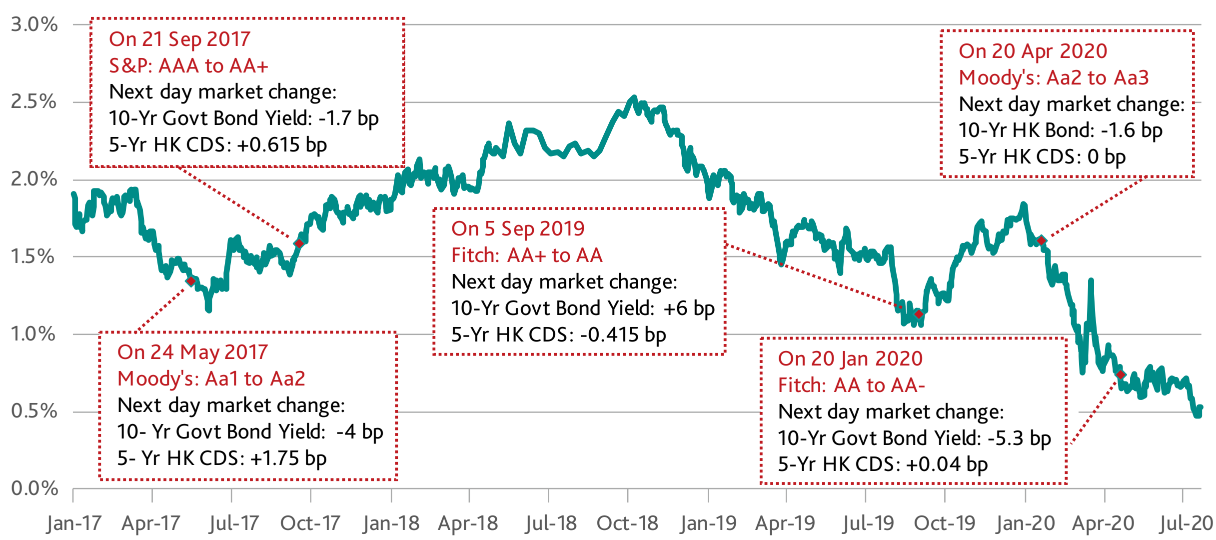
Sources: Capital IQ, Bloomberg and news
*bp = basis point

In theory, a rating cut signifies a higher credit risk and worsening financial condition of the subject jurisdiction. This will generally lead to higher borrowing costs and CDS premiums for the government involved, like Greece's situation mentioned above. The stock market index will usually also react adversely to the downgrade due to the deterioration of the territory's credit profile.

From **graph 2** below, the Hong Kong 10-year Government Bond yield declined in four out of five of the days following the rating cuts. The magnitude of the changes was insignificant, ranging from -5.3 bp to +6 bp. The premium for 5-year CDS generally increased after the downgrades but these increases were insignificant. As a benchmark, the magnitudes of the bond yield and CDS premium changes were close to their daily standard deviations of 4.4 bp and 1.48 bp, respectively, which suggested that the market did not react very strongly to the downgrades.

The movements of the Hang Seng Index after the downgrades were also insignificant, except for the over 2% drop following the rating downgrades by Moody's and Fitch on 20 January 2020 and 20 April 2020, respectively. These two rating changes occurred during the COVID-19 outbreak – a period when the stock market was very volatile due to the increased economic uncertainties and expected recessionary impact. **Graph 3** is a snapshot of the Hang Seng Index in the first half of 2020. The index declined sharply by 25.3% from its

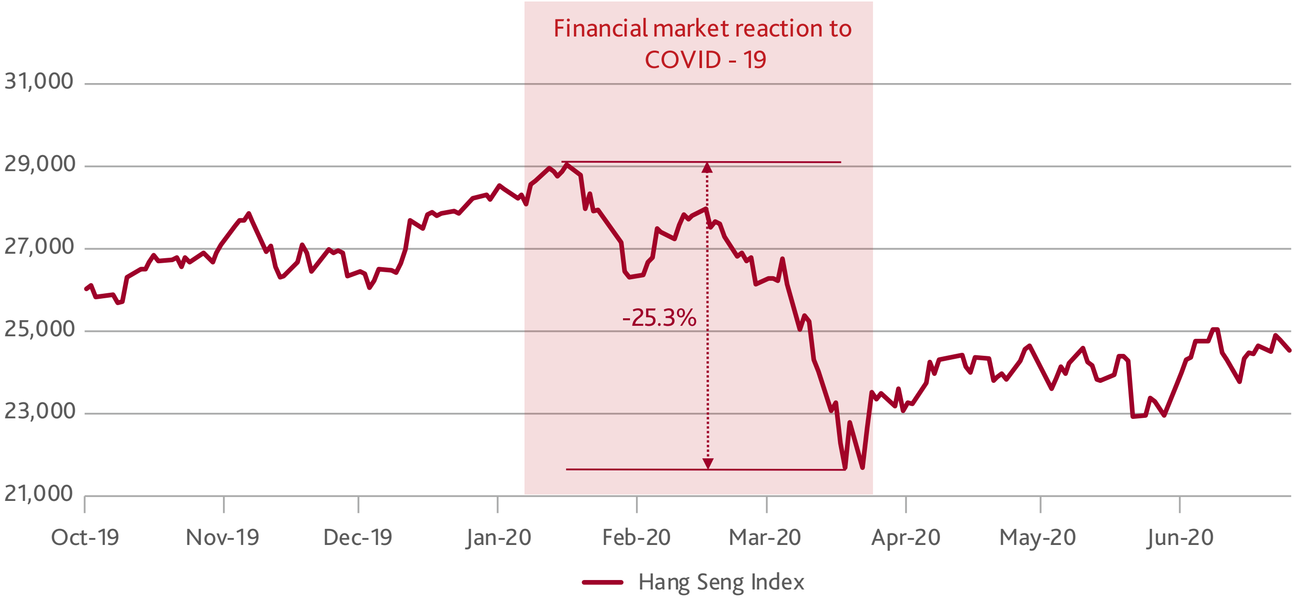
Graph 2: Hong Kong Government 10-year Bond yield (Jan 2017 to Jul 2020)



Sources: Capital IQ and news

Reference
9. Greek/German bond yield spread more than 1,000 bps: https://www.reuters.com/article/markets-bonds-greece/greek-german-bond-yield-spread-more-than-1000-bps-idUSLDE63R0WU20100428

Graph 3: Hang Seng Index (Oct 2019 to Jun 2020)



Sources: Capital IQ and news

peak in the first quarter and the market has remained volatile thereafter. As such, the index changes following the last two downgrades could have been distorted by the market reaction to the COVID-19 crisis.

Based on the analysis above, the market reaction towards the recent rating downgrades of Hong Kong did not appear to be significant. The downgrades did not have any major impact on the yield and CDS premium of the Hong Kong Government Bond and the stock market declines were not substantial. We believe the subdued response was because:

1. Even after the various rating cuts by the agencies, Hong Kong's sovereign rating is still at a premium level, namely at the second-highest rating of S&P and fourth-highest rating of Moody's and Fitch. In general, the credit spread of bonds rated at AA and A ratings are usually not materially different. In view of the strong demand for high quality fixed-income investment, the downgrade of Hong Kong by one notch did not therefore materially impact the yield of the Hong Kong Government Bond.

2. The recent downgrades of Hong Kong were mainly attributed to political reasons, including persistent social unrest, etc. The fundamental credit profile and financial system of Hong Kong are still very healthy and functioning well. According to Fitch[10], the debt to GDP ratio of the Hong Kong government is about 41% (or 3% if only counting the portion of its fiscal nature) of its GDP. This is a better ratio compared with the historical median level for AA and A rated jurisdictions. Hong Kong's official foreign currency reserve assets totalled US$437.5 billion as at the end of March 2020, which represented over six times the currency in circulation[11]. This is more than sufficient to support the Linked Exchange Rate System and financial market stability. The Hong Kong government has announced economic relief measures totalling HK$257.5 billion in response to the COVID-19 crisis and Fitch expects that fiscal reserves will fall to 30% by the end of this fiscal year. However, the reduced reserves are still at a healthy level. The market has therefore perceived the default risk of Hong Kong's debt obligation to be still very remote.

Going forward

As indicated above, the recent credit rating downgrades of Hong Kong did not significantly impact government bond yields or the stock market, given the robust and healthy financial strength of Hong Kong. As such, there is no immediate impact on the valuation of businesses in Hong Kong in so far as the reference risk-free rate for the cost of capital computation is concerned.

Recent measures by the US government and potential unconfirmed actions as reported by the media eg banning Hong Kong from accessing the US dollar clearing pool, are currently unlikely to impact Hong Kong's peg to the US dollar[12]. However, S&P has already stated that if there are any potential US restrictions that could affect the market stability in Hong Kong, the agency might consider further rating cuts if appropriate[13]. Investors should therefore prepare for any such further developments when needed by adjusting their portfolio as well as assessing any impact on their required rate of return or cost of capital.

BDO's valuation team

Our team is ready to support you on any valuation-related matters, with contact details for the key valuation team members given below. If you do have any valuation matters requiring support, please reach out to the authors.

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Reference

10. Fitch Downgrades Hong Kong to 'AA-' from 'AA'; Outlook Stable https://www.fitchratings.com/research/sovereigns/fitch-downgrades-hong-kong-to-aa-from-aa-outlook-stable-20-04-2020
11. Hong Kong's Latest Foreign Currency Reserve Assets Figures Released: https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/04/20200407-4/
12. The Hong Kong dollar's 36-year-old peg to the US dollar will survive current tensions between the US and China – here's why: https://www.scmp.com/business/banking-finance/article/3086747/hong-kong-dollars-36-year-old-peg-us-dollar-will-survive
13. 標普：國安法不影響香港評級: https://www1.hkej.com/dailynews/finnews/article/2489241/%E6%A8%99%E6%99%AE%EF%BC%9A%E5%9C%8B%E5%AE%89%E6%B3%95%E4%B8%8D%E5%BD%B1%E9%9F%BF%E9%A6%99%E6%B8%AF%E8%A9%95%E7%B4%9A

BDO EVENT HIGHLIGHTS

BDO webinars cover a wide range of business topics and hot issues to provide valuable opportunity for our participants to interact with our experienced professionals and to gain insights into today's market update and challenge.

CONTINUOUS MONITORING AND MANAGED SERVICES – REMOTE WORKING DURING COVID 19

MAY 05

- A cross-border webinar hosted in conjunction with BDO in Inida

Whilst more and more people get familiar to the tips for better cybersecurity, the number of cybersecurity attacks are not stopped even though in the time of COVID 19. With the increasing threat landscape, an effective security operations center needs to be developed carefully to prevent advanced threats and to have a bird's eye view of the technological infrastructure.

BDO's Cyber Security Operation Center was introduced with Senior Manager of Risk Advisory **Roger Lo** and Saloni Verma, Partner of Cyber Security, BDO in India sharing their knowledge on the need for continuous monitoring for IT security and the end point detection, management and response. Security controls regarding the remote working and bring-your-own-device policies were also discussed.

UPDATE ON ESG DISCLOSURE REQUIREMENTS

MAY 13

The Stock Exchange of Hong Kong Limited issued the consultation conclusion on ESG Reporting Guide and related listing rules (the Consultation Conclusion) in December 2019. Certain changes have been made to the existing ESG Reporting requirements for listed companies with accounting year beginning on or after 1 July 2020.

Director and Head of Risk Advisory **Ricky Cheng** briefed about the latest ESG reporting requirements and key changes, including the new mandatory disclosures on ESG governance structure, reporting principles and reporting boundaries and the changes in KPIs disclosure, and shed light on areas of focus where investors may be of interest when reviewing company's ESG report.

DATA PRIVACY DEVELOPMENT & CHALLENGES

MAY 19

In light of recent personal data privacy breaches, Hong Kong Government's Constitutional and Mainland Affairs Bureau recently proposed six amendments to the Personal Data (Privacy) Ordinance (Cap. 486), requiring data users to timely report data breaches and authorising the Privacy Commissioner to impose fines based on annual turnover of data users. The technological advancements in recent years have also given a new meaning to the processing and use of information. It also raises awareness of privacy protection, the demand for an effective data privacy regulatory structure as well as data security controls.

Senior Manager of Risk Advisory **Roger Lo** and Eugene Lai, Principal of Yang Chau Law Office discussed the proposed amendments to personal data and (Privacy) Ordinance (Cap. 486), as well as the regulatory risks and compliance costs for the business sector resulted from the amendments. They also shared insights on data security impact assessments and technical security measures and cybersecurity awareness.

RECENT DEVELOPMENT ON REGULATORY REGIME FOR VIRTUAL ASSETS

JUN 10

Virtual assets are the latest hot topic with a total market capitalisation of US$200 billion to US$300 billion globally, 3,000 digital tokens and over 200 virtual asset trading platforms. On 6 November 2019, the Securities and Futures Commission (SFC) issued a position paper on regulation of virtual asset trading platforms. Only platforms which are capable of meeting the expected standards would be granted licenses.

Director of Risk Advisory **Peter Pang** shared his insights on the overview of regulatory landscape on virtual assets in Hong Kong and the framework and standards for the regulation of virtual assets trading platforms by SFC. The terms and conditions for platform operators such as safe custody of assets, AML/CFT, accounting and auditing and risk management were also discussed.

BENEFITS OF BECOMING ISO 27001 CERTIFIED & HOW ISO STANDARDS HELP STRENGTHEN DATA PROTECTION & SECURITY

JUN 12

As the technology moves toward many core business operations, the integration of different IT solutions eg 5G, blockchain, cloud & IoT technologies will likely introduce game-changing hazards such as disruption in the information flow among connected devices and compromise of personal data and critical infrastructure. Sensitive data breach also becomes a core agenda in risk management with more companies now actively manage from ISO management system approach.

Senior Manager of Risk Advisory **Roger Lo** explained the benefits of becoming ISO 27001 certified by enhancing data protection and strengthening process control and how ISO management system and certification minimise risk of sensitive data leakage.

MANAGING SOCIAL MEDIA EXPOSURE

JUN 16

Social media is now frequently used by businesses as the key channels for marketing their latest products, brand image or even engaging stakeholders in collecting feedback on their service quality. With the increased functionalities of social media applications, deployment of big data analytics of users' viewing patterns, users' profiles and preferences are becoming more transparent to the general public.

As improper usage or management of social media practices may bring problems to organisations and individual user, Director and Head of Risk Advisory **Ricky Cheng** shared insights on recent social media trend, corporate social media failure and privacy concerns, as well as hints on social media governance.

BUSINESS SUSTAINABILITY, OUR FOCUS IN THE POST-PANDEMIC ERA

JUN 19 JUL 08

COVID-19 has become a global pandemic that affected millions around the world. Workers become staggered at work; businesses are experiencing unprecedented challenges in their own ways. In these chaotic moments, business leaders must develop a mindset that will allow them to steer their companies through the tides of uncertainty based upon resilience thinking. It is no longer viable for businesses to focus solely on business growth, it is more important to strive for sustainability and flexibility in situations of a crisis or an epidemic. Ultimately, it is about staying ahead in this forever changing world, and learning how to react swiftly to adapt.

Portia Tang (left) and Christy Chan (right)

Portia Tang (left) and Christy Lam (right)

Director and Head of Professional Resources Solutions & Client Services **Portia Tang**, Senior Manager of Professional Resources Solutions **Christy Lam** and Manager of Client Services **Christy Chan** shared their observations and insights on the ways to tackle the different unprecedented challenges resulting from the COVID-19 outbreak, including the issues that may experience when practicing remote working, the proposed change in performance evaluation system, the resourcing landscape and the common trends in resourcing strategies.

COVID-19 AND CHALLENGES AROUND ECL ESTIMATION UNDER HK/IFRS 9

JUN 22 JUN 24

The current COVID-19 pandemic may present challenges for preparers when applying the requirements of HK/IFRS 9 expected credit losses (ECL). ECL accounting is designed to incorporate forward-looking information that is available without undue cost or effort at the reporting date. Estimates of ECL in light of COVID-19 will be subject to greater levels of uncertainty. This highlights the need to apply ECL well and use those assumptions that are most reasonable and supportable in the current environment.

Director and Head of Financial Reporting Advisory **Simon Riley** and Principal of Financial Reporting Advisory **Winnie Chan** highlighted the ECL requirements, the measurement of ECL under stressed economic conditions, together with some insight as to how best to address them in times of heightened uncertainty.

EVOLVING PROCUREMENT FUNCTION IN RISK MANAGEMENT

JUN 30

As supply chain becomes increasingly global and complex, the role of procurement function has elevated to beyond a mere operational function of sourcing materials and services at low costs. The evolving requirements and pressures on procurement to sustain cost reduction, minimise repercussions from supply chain disruptions, comply with regulations and to source ethically have become some of procurement's expected additional values and responsibilities, making procurement risk management more challenging. While traditional challenges such as vendor selection and management and cost control remain critical, other important elements that businesses should consider when managing supplier risks include elements such as suppliers compliance with policies and regulations, supplier and contract management frameworks and use of technology in data modelling.

Principal of Risk Advisory **Vivian Chow** examined the challenges facing procurement professionals in the current volatile and precarious operating environment, and explained the key concepts around procurement and supplier risk management and key strategies to risk mitigation.

ADDRESSING PRIORITIES FOR HEALTHCARE MANAGEMENT IN A PANDEMIC

JUL 09

With the coronavirus outbreak, healthcare sectors around the globe are looking for innovative, cost-effective ways to deliver healthcare services. Operational changes continue to shift the risk profile for the healthcare industry forcing a more focused approach to prioritise and respond quickly to key risks. Hospitals and other medical institutions must consider strengthening their collaboration and management capability to promptly react and implement measures while using digital technology to explore alternative methods to maintain effective delivery of healthcare services.

Principal of Risk Advisory **Vivian Chow** and Senior Manager of Risk Advisory **Roger Lo** shared their knowledge on notable priorities that healthcare management can focus on during the innovation and transformation progress and challenges in this unprecedented time, including the development of a sustainable supply chain management, cost centre management, development of telemedicine, data security and protection, and emergency management system.

POST-COVID: HOW CAN BUSINESSES MAKE THEIR BEST CORONAVIRUS COMEBACK

- A cross-border webinar hosted in conjunction with BDO in Singapore

JUL 22

As economies begin to reopen, companies have commenced to restart and rebuild their operations. The challenge is complicated with uncertainties of how COVID-19 will continue to impact economic activities, consumer behaviours and businesses. Companies would need to respond by transforming and building their competencies and structures that allows them to prepare for unforeseen circumstances.

Director and Head of Professional Resources Solutions & Client Services **Portia Tang** and Nellie Yeoh, Manager of Management Consulting Services, BDO in Singapore and Roger Loo, Director, Management Consulting Services, BDO in Singapore, shared guidance on how to overcome the challenges by fostering innovation and shifting priorities on sustainability rather than business growth and provide recommendations on how companies can make changes to their current HR resourcing strategies to achieve business sustainability.

CASE STUDY AND INSIGHTS INTO LISTCO SUSPENSION

JUL 31

Prolonged suspension not only impacts negatively on share prices, but may also limits the existing shareholders to realise the remaining value of their investments. The HKEx's latest adoption of a more robust listing suspension policy and the relevant amendments to the listing rules aims at providing a degree of certainty to the market on the delisting procedures of long suspended listed companies while encouraging those suspended companies to act promptly towards resumption. It is therefore essential for listed companies to timely respond to confronted issues and shorten the suspension period.

Principal of Risk Advisory **Vivian Chow** and Manager of Risk Advisory **Emily Sin** examined the regulatory updates on stock suspension and resumption and the recent trends in regulatory enforcement actions while providing insights into resumption of trading and key strategies to stay vigilant against prolonged suspension through actual case studies of suspended listing companies and analysis of the remedial actions adopted by the suspended companies.

Emily Sin (left) and Vivian Chow (right)

CORPORATE GOVERNANCE RISK UNDER COVID-19 AND THE IMPACT ON INTERNAL AUDIT REVIEW

AUG 05

The COVID-19 pandemic has brought significant business disruptions. Management needs to consider and incorporate ways to react and response to the current situation and how they should manage the business in order to achieve the mission and organisation objectives. A good corporate governance provides the infrastructure to improve the quality of management's decisions while a good internal control audit provides an independent assurance on risk management, corporate governance and effectiveness on internal control processes.

Principal of Risk Advisory **Christina Wong** shared her insights on the type of corporate governance risks the management of the company should concern and focus and the impact on the internal control review under COVID-19 as well as the recommendations on how companies should manage corporate governance risk and internal audit to sustain their business operations.

RECENT DEVELOPMENTS ON VIRTUAL BANKS IN HONG KONG

AUG 10 AUG 25

In May 2018, the HKMA revised its guideline on the authorisation of virtual banks. This guideline sets out the requirements for: ownership, ongoing supervision, physical presence, technology risk, risk management, business plan, exit plan, customer protection, outsourcing and capital. Since March 2019, eight virtual banking licences have been issued. As virtual banks are still not very common in Hong Kong, some may wonder what are their differences in competiveness and products with traditional banks and how they do the eKYC process.

Director of Risk Advisory **Peter Pang**, Senior Manager of Risk Advisory **Roger Lo**, Manager of Risk Advisory **Sacha Chiu** provided an introduction of the basic requirements of virtual banks and the features of existing ones while comparing them to traditional banks. They also shared their insights on the future development of virtual banks in Hong Kong. An English rerun session was conducted on 25 August, following the overwhelming support on the webinar on 10 August.

(From left to right) Roger Lo, Peter Pang and Sacha Chiu

RECENT ENFORCEMENT CASES ON AML/KYC AND OTHER ISSUES BY SFC

AUG 20

In the first half of 2020, the Securities & Futures Commission of Hong Kong (SFC) fined various parties on AML, KYC and related issues for more than HK$60 million. As the markets become more complex, global and interconnected, the SFC evolved its regulatory approach to be 'front-loaded' (or pre-emptive), multidisciplinary, risk-based and holistic, cooperative and innovative. The approach emphasises early, targeted and systemic intervention to address persistent problems and pre-empt the fallout from emerging threats.

Director of Risk Advisory **Peter Pang** discussed the latest trends in AML related and other recent SFC enforcement cases. He also highlighted points of interests on internal control and AML related practices that one should be aware of going forward.

RECENT BDO PUBLICATIONS

TAX PUBLICATIONS

Indirect Tax News
Issue 2/ May 2020

World Wide Tax News
Issue 55 - June 2020

Hong Kong Tax
July 2020 - New practice guide issued on the unified fund exemption regime

HORIZONS – BDO'S QUARTERLY GLOBAL MID-MARKET REVIEW

Horizons Q2 – 2020

Horizons Q3 – 2020

HKFRS/IFRS UPDATE

- **HKFRS/IFRS Update 2020/05**
  Impairment implications of COVID-19 (HKAS/IAS 36 Impairment of Assets)
- **HKFRS/IFRS Update 2020/06**
  The IASB issued amendments to IFRS 16: COVID-19 related rent concessions
- **HKFRS/IFRS Update 2020/07**
  Impairment implications of COVID-19 (HKFRS/IFRS 9 financial instruments)
- **HKFRS/IFRS Update 2020/08**
  Accounting for rent concessions: lessee FAQs
- **HKFRS/IFRS Update 2020/09**
  Implications of COVID-19 for lessors (HKFRS/IFRS 16 Leases)

RISK ADVISORY PUBLICATIONS

- **ESG Updates**
  June 2020 Issue
  August 2020 Issue
- **Financial Services Sector Updates**
  June 2020 Issue
  August Issue
- **Technology Updates**
  June 2020 Issue
  August Issue

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