APERCU

DECEMBER 2020

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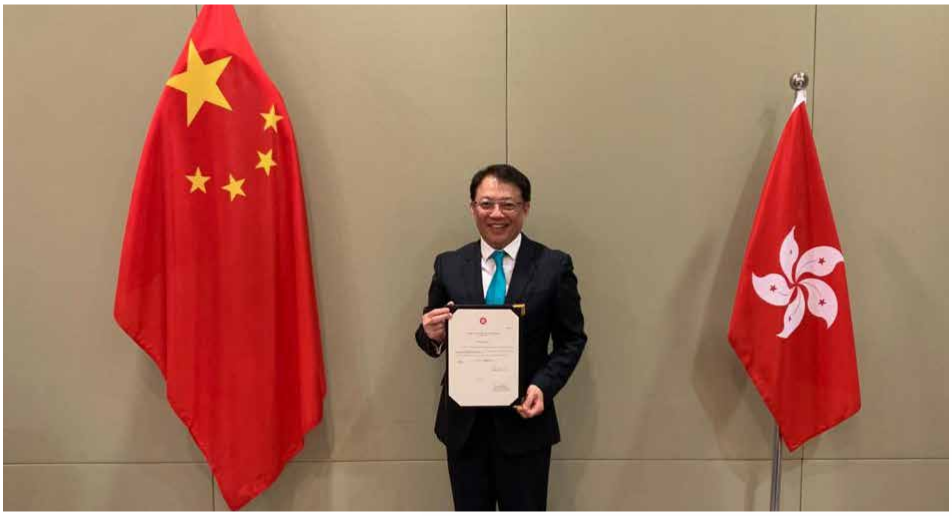
CLEMENT CHAN WAS APPOINTED AS A JUSTICE OF THE PEACE



Managing Director of Assurance **Clement Chan** was appointed as a Justice of the Peace (JP) by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) Government on 1 October 2020.

Clement was appointed as a JP in recognition of his valuable contribution to the Hong Kong community. The main function of JP is to visit correctional institutions, detention centres and other institutions to ensure their effective management and that no individual is unfairly treated or deprived of his or her rights. JP will ensure that complaints lodged by individuals are handled in a fair and transparent manner.

Please join us in congratulating Clement and wishing him every success in his public and community services endeavours.

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BDO

BDO'S CLEAR STRATEGIC APPROACH TO THE COVID-19 BUSINESS RECOVERY PROCESS HAS RESULTED IN BALANCED GROWTH ACROSS THE BOARD

BDO is pleased to announce a total combined fee income of US$10.3 billion/€9.2 billion, for the year ended 30 September 2020, representing a year on year growth of 7.8% at constant exchange rates. Total headcount has increased despite COVID-19, with 91,054 people working out of 1,658 offices in 167 countries and territories worldwide.

BDO Rethink approaches contributed to the growth and succeed in the new reality:

Rethink to succeed

BDO has had to rethink the business model, allowing BDO's firms to respond to the common challenges and to create new ways to interact with its clients and with each other. The ultimate goal is always to help our clients succeed.

BDO's Rethink framework was launched globally within weeks of the pandemic taking hold. Designed to help businesses re-evaluate the future, the three-stage model identifies the key issues and opportunities that clients need to consider at each stage. It has proved invaluable in helping business leaders to revaluate strategic and business priorities.

Rethink our service proposition

Seamless service across borders, deep industry expertise and an unwavering focus on quality have remained a focus for BDO this year. In addition, BDO has continued to develop wide range of services to provide new solutions to help clients prosper in the new reality, including cloud accounting, AI, machine learning, predictive analytics and diagnostic tools, taxation of the digital economy and drone technology. Throughout 2020, BDO continued to invest in market-critical acquisitions, each with the intent to complement our service offering, across a variety of industries.

Rethink innovation

The pandemic has accelerated digitisation. At the outset of the crisis, BDO demonstrated that it has the expertise and capability to immediately switch to new ways of working. In the same way, BDO has consistently sought to improve our stakeholders' digital experience and to enhance

our data analytics capabilities. The latest iteration of BDO's audit process tool, APT Next Gen, continues to offer clients digitally enabled processes and methodologies, powered by leading technology.

Rethink the power of people

BDO remains a people-powered business, combining digital awareness with truly understanding clients. BDO people have adapted quickly and continue to connect and collaborate to support our clients worldwide.

Agility and client focus remain key and BDO does not underestimate the importance of human capital and the ongoing need to attract talent with a new set of skills. BDO's professionals worldwide are transforming their client service approach because they are able to embrace future-oriented technology and apply insights with a digital mindset.

To conclude, Global CEO Keith Farlinger comments: "It is vital we keep our culture and our people at the forefront of our business - even more so during moments of uncertainty. As we continue to navigate the new reality, I am proud of how our BDO firms have responded to the many challenges posed by the global pandemic and how they have used the clearly defined structure of our bespoke BDO Rethink management philosophy to guide our people and our clients, helping them to succeed in the new reality".

BDO SURVEY: RETHINK AND INNOVATE

The outbreak of COVID-19 pandemic has caused widespread and unprecedented impact on business operations of companies from various sectors. Some companies experienced significant revenue loss, partial business closure or suspensions and liquidity problem.

To study the impact of COVID-19 on the business operations of Hong Kong constituency stocks and understand their immediate responses to COVID-19, latest annual reports and/or ESG reports publicly available on or before 30 June 2020 of 60 Hong Kong constituency stocks from both Hang Seng Index (HSI) and Hang Seng Corporate Sustainability Index (HSSUS) have been examined.

The survey results revealed that listed companies have taken different measures for sustaining businesses and at the same time addressing stakeholders' concerns in order to overcome these difficult situations.

To view the publication, please visit at: https://www.bdo.com.hk/en-gb/insights/research/bdo-survey-rethink-and-innovate-how-listed-companies-respond-to-covid-19-challenges.

SHAPING THE FUTURE WITH YOUR REMOTE WORKFORCE

As Hong Kong continues to grapple with COVID-19, many of us have already got used to social distancing and meeting online. Amazingly, we have all found new ways to adapt to this new normal – we have continued to stay in touch with friends and relatives virtually, and even our grandparents have been taught how to use video conferencing facilities so that everyone can stay connected.

With all the preventative measures that our governments have put in place, we should be confident that there will eventually come a day when the global spread of COVID-19 is under control and, more importantly, a reliable vaccine is ready and available for widespread distribution. It is only a matter of time, but no one can predict when this day will come.

Rather than straying into the realm of speculation, HR professionals and business leaders should play a proactive and leading role by nurturing their people to keep up with the times in terms of utilising the remote workforce. In other words, employees need to be empowered by senior management to act as innovative champions: to be on top of the latest trends, and to take responsibility for obtaining market intelligence and keeping an eye on what competitors are doing. They should also be responsible for leading the organisation in designing and implementing innovative changes that will ensure business sustainability and maintain competitiveness in the market, from the perspectives of both corporate reputation and employer branding.

Discovering the key benefits of remote working

While some companies are still struggling with the question of whether they should embrace remote working and implement the relevant arrangements across the organisation, successful leaders have proven beyond doubt that an optimised remote work plan can be the game-changer that enables a business to thrive, during and after this unusual period. The following key benefits of embracing remote working may inspire and encourage the implementation of this important practice in your business:

1. Lower operating costs

With customised technology, equipment, tools and infrastructure in place, remote-enabled companies can operate their business efficiently through hiring and engaging people in the remote workforce. These companies will have a much greater chance of achieving business sustainability for longer, as remote working allows businesses to operate with more flexibility, which facilitates long-term cost savings. These substantial savings are directly related to operational expenses, including rent for office space, utility costs, travel expenses and administrative expenses (such as printing and stationery).

2. Attracting millennial talent and enhancing employee satisfaction

Workplace flexibility is one of the most attractive things employers can offer to jobseekers. This helps a company expand its talent pool by tapping into the most sought-after demographic – millennials. Being the largest slice in the labour population pie, this group has high expectations of the perks that companies should provide, from rewards to fringe benefits, and from working hours to a flexible workplace. Statistics also reveal that employees in this group are more willing to forego at least 10% of their salary to attain the flexibility that remote working can provide. This will benefit a company by improving its overall staff retention status.

3. Greater workplace diversity

Leveraging the convenience of e-communication tools removes geographical barriers by eliminating borders that restrict hiring, giving a company access to a wider pool of talent. With more diversity and cross-border experiences blended in a team, businesses will be able to improve their innovation, creativity, branding and reputation.

Getting buy-in from the management team

Nurturing ‘out-of-the-box’ thinking should always start at the senior management level. HR leaders in every organisation should be driven by the purpose of acting continuously for the betterment of the company. HR leaders have a responsibility to share the latest HR trends and market insights with the senior management team on a regular basis. The purpose is to keep them updated on what is happening in the market and what competitors are doing to attract and retain talent, as well as to introduce new ideas for the purpose of making the company a better place for employees to work. By doing this, senior managers should be better prepared whenever it is necessary to introduce new concepts and ideas, which should also translate into easier acceptance by the management team.

Remote working, or working from home, is one of the most pertinent trends of today. Indeed, during the COVID-19 outbreak, companies were not left with much choice: they were forced to either shut down their operations or experiment with remote working. As far as can be observed, the companies that were well prepared and equipped with the relevant IT infrastructure, platforms and tools were able to continue to operate their business via remote working, even though they struggled slightly at first; on the other hand, many of the traditional companies that continued to practise and do business in the same old way were forced to shut down some, if not all, of their operations. After months of shutting down, many of these companies have finally woken up to the fact that they can no longer operate as they were doing before and have started to explore options that will allow them to carry on their business while community lockdown requirements and social distancing measures are in place, one of which is the practice of remote working. Nevertheless, many of these companies have only just realised that remote working is not simply about working in a different place but that it requires making changes to the entire way of working, as well as investing time and resources to implement technologically advanced equipment and tools that make it possible for remote working to be effective. But this is not the end: the most challenging part is to reskill or upskill the existing workforce, transforming them into part of the remote workforce.

With the pressure to keep up with the ever-changing situation, businesses should start revisiting their business continuity plan (BCP) if they have not yet done so. Having an effective, properly implemented and attested BCP is crucial for operating a business in today's world. Remote working might have been part of a company's BCP process in the past, but post-COVID is sure to be one of the most popular trends and an essential practice to help businesses achieve sustainability.

The fundamental aspects to consider for devising an effective remote work practice

Whether you are looking to make remote working a reality or you are reassessing your existing policies, a benchmarking exercise serves as a good starting point for your business.

Delay no more; now is the time to get started with formulating or revisiting your remote working policy using the guidance below. Consider the following eight key areas when devising an effective remote working policy from concept to execution:

1. Empowerment

Senior management should empower HR and business stakeholders, giving them rein to offer remote working as an option for employees to choose to take. For those that have not started any remote work deployment on a company-wide basis, it may be appropriate to start by identifying special cases that satisfy the conditions for remote working, and slowly introduce the concept of remote working culture within the organisation. Subsequently, when people are more receptive to remote working and it is extended to become a formalised option across the company, HR will have to start identifying what will be the differences between the remuneration packages, benefits and employment support to be offered to remote workers and those to be offered to the employees who will continue working physically at the office.

2. 'Remote-ability' assessment

When business demands are in a state of continual change, HR professionals will need to start discussions with business leaders to determine the types of roles that can feasibly function effectively when carried out remotely (ie jobs that can be performed indoors and remotely with the use of technology). The next step is to ensure that the company is technologically ready to maintain operational efficiency during remote working. Other than these factors, there is the 'people' element, which many businesses may easily overlook. It is crucial for business leaders to ensure that employees are psychologically prepared to work remotely and that they possesses the required skills and work ethic, while leaders should understand jobholders' personal attributes and obtain a better knowledge of their home environment to ensure that it is safe and suitable. These essential elements will affect decisions about staff deployment and scheduling under a remote working arrangement. All in all, a successful remote working deployment will involve a holistic assessment of its overall impact on the company's people, business and operations.

3. Insurance

This is highly relevant and important for all companies. As responsible employers, we should make sure that we have the relevant insurance policies in place with adequate coverage for potential liabilities and, more importantly, that we are in compliance with the Employees Compensation Ordinance. This involves checking whether the current insurance policy includes a provision for working from home or remote working arrangements, as accidents may happen while an employee is performing their work outside the office. We should take necessary care to select and provide the right tools and equipment, making sure they are safe to use before giving them to our employees to use remotely. That being said, we should arrange to have our insurance policies reviewed by insurers in order to identify any potential gaps or coverage issues. Finally, we should arrange for changes to be made in our policies with the goal of aligning the company's coverage with the different risks that could be involved in remote operations.

4. Hiring strategies and cost analysis

In the midst of anxieties over business continuity in the deteriorating global operating environment, adopting effective yet cost-efficient hiring strategies for your remote workforce has become instrumental in the realm of cost minimisation across the firm – not to mention resources and functional outsourcing strategies, which have stood the test of time over any point of the season. Catered to all industry types, you may consider outsourcing an entire function or just a few roles in a particular function to a qualified and trusted service provider who can handle the repetitive, mundane and non-value-adding tasks, easing the burden on your HR team in aspects of recruitment, retention, replacement and training, as well as fulfilling payroll and other statutory compliance obligations. Furthermore, you can redirect your staff to focus on other pipeline and more important business initiatives.

5. Establish a structured manner of communication

Speaking of staying connected, a daily call or periodic catch-ups with your remote team members is essential when managing a remote team. The purposes of these calls are to set clear expectations, understand the current work conditions for each team member, report on status and progress updates for tasks and deliverables, address any challenges and issues encountered, and resolve conflicts promptly. It is crucial that these calls are regular and predictable, and, more importantly, that they provide opportunities for team members to ask questions, communicate, make comments and express concerns. Team members should be assured that their questions and concerns will be heard and addressed accordingly. Lastly, companies should try to limit the number of communication channels in order to avoid complications. The next item provides more information about communication tools.

6. Communication tools

One of the best things about new technology is its ability to take us to different places in no time. In the world of remote working, email alone is no longer sufficient as remote workers need visual interaction, such as video conferencing, to ease their sense of isolation. Video conferencing facilities are instrumentally useful for complex or sensitive conversations, as it feels more personal than written or audio-only communications. Common communication platforms are WeChat Enterprise and Microsoft Lync, WhatsApp, Zoom, Microsoft Teams, Slack and Skype for business. Ultimately, remote working can only be successful if companies have effective digital collaboration and communication tools that are accessible for everyone in the organisation. Nevertheless, companies should limit the number of communication channels to just a few (no more than three) or make their preferred channels official in order to ensure proper and effective communications amongst internal team members.

7. Performance appraisals

Nothing is more important than communicating your expectations to your employees clearly. This will radically reduce the need for any micro-management. As a guiding tool, the assessment of individual and team performances can simply be performed by identifying and including the relevant key performance indicators (KPIs) and creating an assessment spectrum based on tasks or projects (instead of just an annual appraisal of overall performance). To manage supervisors' expectations, team members should stick to the deadlines on key deliverables, regularly present their daily or weekly plans, and share work-related challenges and achievements with the group from time to time. This is a good way to boost team spirit and unleash their potential, which should ultimately lead to an elevation of the team's – and even the company's – overall performance.

8. Working environment

As we remain steadfast during this turbulent time, ensuring a cost-effective and safe working environment for your remote workforce is the key to achieving business sustainability. As responsible and caring employers, we have a duty to ensure that our employees are working remotely in an environment (home or shared office) that is suitable from a health and safety perspective. Employers may ask their staff to provide a photo of their workspace for review and assessment. In the event that the environment is considered to be unsuitable, companies should provide subsidies to their employees so they can rent a workspace that is suitable for carrying out their day-to-day work.

Speak to our Professional Resources Solutions professionals

Feel free to get in touch with our professionals to find out how we can help your business in formulating and implementing an effective remote working strategy.

PORTIA TANG
Professional Resources
Solutions & Client Services
portiatang@bdo.com.hk

BDO IS THE EXCELLENT INNOVATION PROVIDER AWARD WINNER AT HKIHRM HR EXCELLENCE AWARDS 2019/2020

BDO is pleased to announce that we are crowned as the **Winner of the Excellent Innovation Provider Award** (Gold equivalent) at HR Excellence Awards 2019/2020, organised by the Hong Kong Institute of Human Resource Management (HKIHRM) held virtually on 25 September 2020, Friday.

The Awards consists of an extensive panel of 27 judges including HR VPs and Directors from diversified corporations such as COSCO Shipping, CUHK, Hutchison Port, Levi Strauss and Swire Beverages. As our first entry to this competition, we are delighted to receive this award and take home another HR industry title. We had gone through several rounds of interviews/presentations to the judging panels during the year in addition to our lengthy entry submissions. **We are very proud that we have been able to demonstrate and convince the industry that 'innovation' is not just associated to technology, but it can also be applied to the design and delivery of professional services**.

Along with our successes in other HR industry awards, we are thrilled and honoured to be placed amongst some of the most respectable leaders within the HR industry and be recognised as one of the best HR business partners.

TAP IS ON – LAUNCH OF OUR INTERNAL 'TREASURY APPROVAL PROCESS' SYSTEM

Over the past year, the combination of social unrest and the COVID-19 outbreak has led to interruptions to the general operations of many companies, not to mention business losses. Heavy reliance on traditional work flows and hardcopy documents has risked disabling operational processes at a time when people must work remotely (from home or elsewhere) and when working from home has become the 'new normal'. Innovation and tech-readiness are no longer just buzzwords, but actions that many businesses must take for the sake of sustainability.

As a key provider of business process outsourcing services, BDO seeks to lead the market through high quality and personalised services that are supported by up-to-date technology.

Treasury, which includes work associated with payments and other bank transaction processing, has been one of the core service areas that our Business Services & Outsourcing team (BSO) provides to clients. Such processes are important ones that must continue for many companies, even at a time of business interruption.

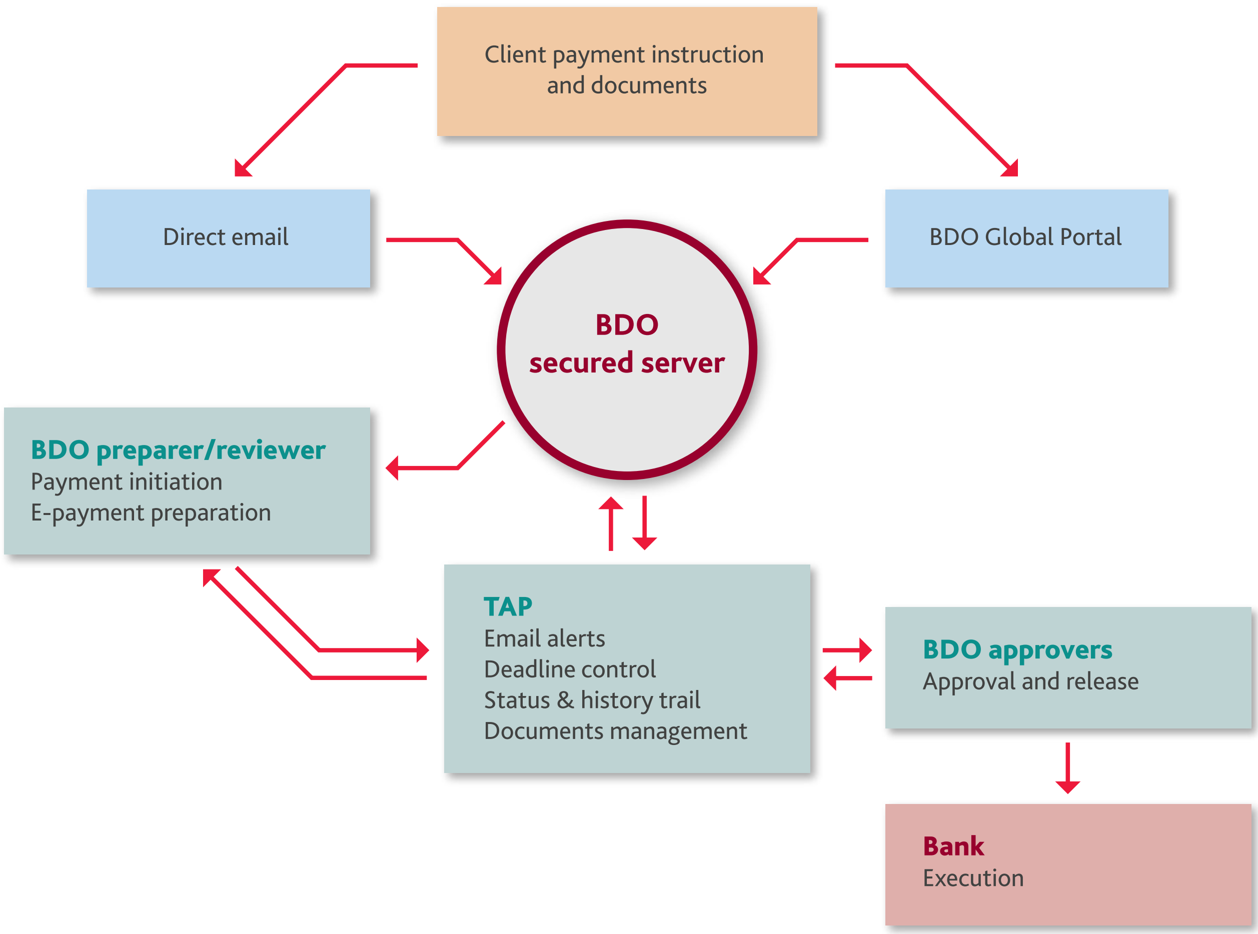
At BDO, as a good practice in maintaining stringent internal controls, duties associated with the initiation, preparation, approval and execution of payments and/or other banking-related instructions are segregated within the BSO team. The payments related underlying documents, messages and client approvals are shared and reviewed by various stakeholders and approvers. Control on completion deadline is also of the essence during the payment process.

BDO took an early step in upgrading the processing ability of our treasury services by developing a centralised e-platform. As well as improving operational efficiency, such a platform enables us to ensure services are delivered as usual, at a time when traditional work flows are often interrupted and unreliable.

We are pleased to announce that, following its launch early this year, our centralised e-platform on Treasury Approval Process, TAP, is now a main internal work flow system supporting the delivery of our treasury services. Through the system, instructions received from clients are logged along with their priority and deadline. Underlying documents are uploaded for ready access by all stakeholders in a secure environment. Email alerts are automatically sent to the person responsible for taking any required actions, wherever they are located. TAP also fully monitors and controls pending instructions, from initiation through completion, without geographic boundary, providing a full audit trial.

As always, BDO endeavours to support and add value to clients and we will make continued efforts to improve the capability and quality of our services. We are happy to share our innovation experience with clients. We will also explore additional functional enhancements for TAP, including extending its work flow to cover processes required by external clients.

DOROTHY PAK
Business Services & Outsourcing
dorothypak@bdo.com.hk



TRANSFORMING DATA INTO VALUABLE INSIGHTS

Big data

Every minute in the business world, we are bombarded with huge volumes of data in multiple formats from myriad sources. Such data, thanks to advances in business intelligence (BI) applications, can now be easily analysed to identify trends, patterns and correlations between diverse datasets. Consequently, we can obtain data-driven insights that are vital for innovation, growth and even survival in business.

Previously, data analysis was cost-intensive and technically complicated, as it required a specialised IT environment and space for data warehousing. Advances in BI have enabled multiple users to access and analyse data without having to be proficient in IT or statistics. Cutting-edge BI software can be used to organise, analyse and visualise large volumes of data from different sources, quickly and regularly. Algorithms can also be formulated to assess and quantify data patterns and trends and then integrate them into interactive (and easily understood) reports to generate additional business insights.

Benefits of BI applications

Business strategy

Information generated from BI analysis can be applied to business strategy (eg enabling businesses to understand and pinpoint successful segments and improve poorly performing areas).

Dynamic data analysis

BI tools are ideal for handling dynamic data and enable users to generate dynamic reports (eg interactive dashboards that update in real time, thus offering a different perspective on examining, utilising and evaluating data).

Performance monitoring

BI applications can analyse historical data and past performance to extrapolate and formulate projections for the future. The results of this analysis can be used to set key performance indicators (KPIs) to establish a result-orientated culture and workplace.

Visualisation

Most importantly, BI makes it possible to visualise data in an easily accessible and comprehensible way. Data visualisation is the process of transforming raw information into a graphical format.

Cost savings

BI tools can streamline expenses, increase return on investment (ROI), make forecasts and plan budgets (eg interactive calculators that determine expenses and sales, and provide forecasts dynamically).

Workflow efficiency

BI centralises all data sources, with easily accessible data connectors that can provide tech-friendly access points. Integrating the right BI tools is important for easy data management.

Data analysis in the transportation sector

According to the Global Industry Classification Standard (GICS), airline and marine/air freight logistics (logistics), the transportation infrastructure, and road and rail are all part of the transportation sector. In total, 116 companies listed in the People's Republic of China (PRC) (ie A-shares) are operating in the transportation sector; seven of these are in the airline industry and another 44 are in the logistics industry.

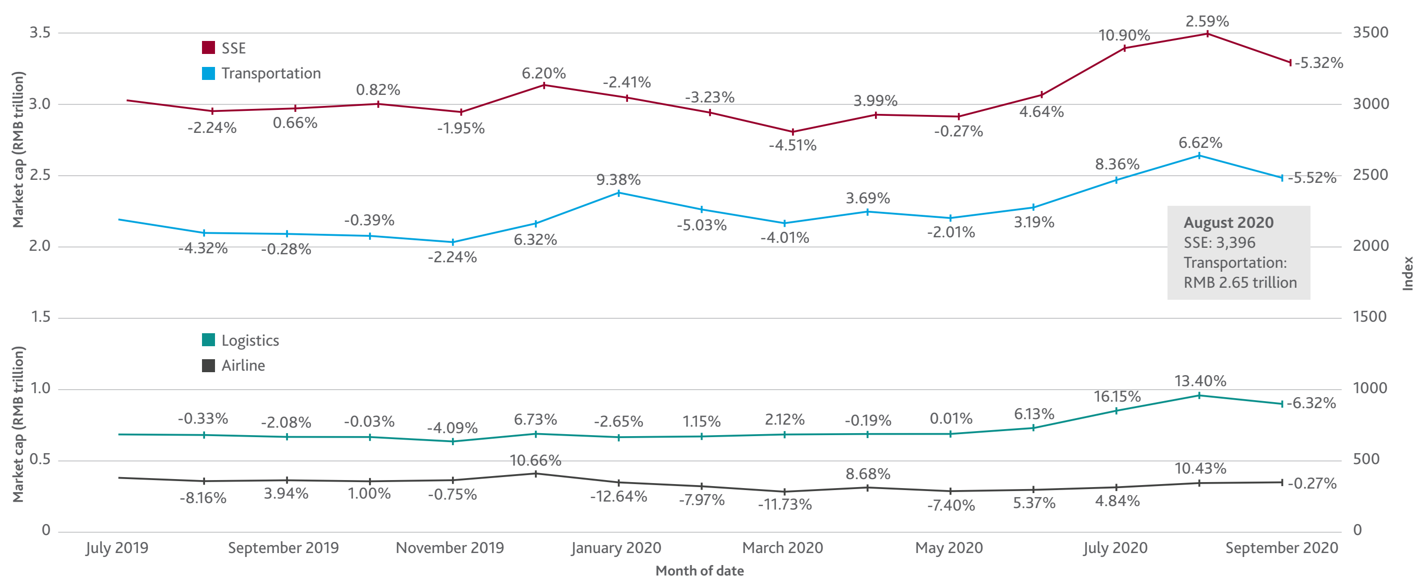
As an illustration, we have used our BI application to analyse the airline and logistics industries in the PRC.

Chart 1 summarises the total market capitalisation (and monthly changes) for the transportation sector, the Shanghai Stock Exchange Composite Index (SSE), the airline industry and the logistics industry in the PRC over the past year.

Since May 2020, the market capitalisation of the logistics industry has grown by far more than that of the airline industry. The total market capitalisation of both the logistics and the airline industries in the PRC (as well as the transportation sector as a whole) peaked in August 2020, after the first outbreak of COVID-19.

As of September 2020, the top players in the airline and logistics industries in the PRC (by market capitalisation) were as follows:

Chart 1: Transportation - total market capitalisation



Source: S&P Capital IQ

Top players within the airline and logistics industries

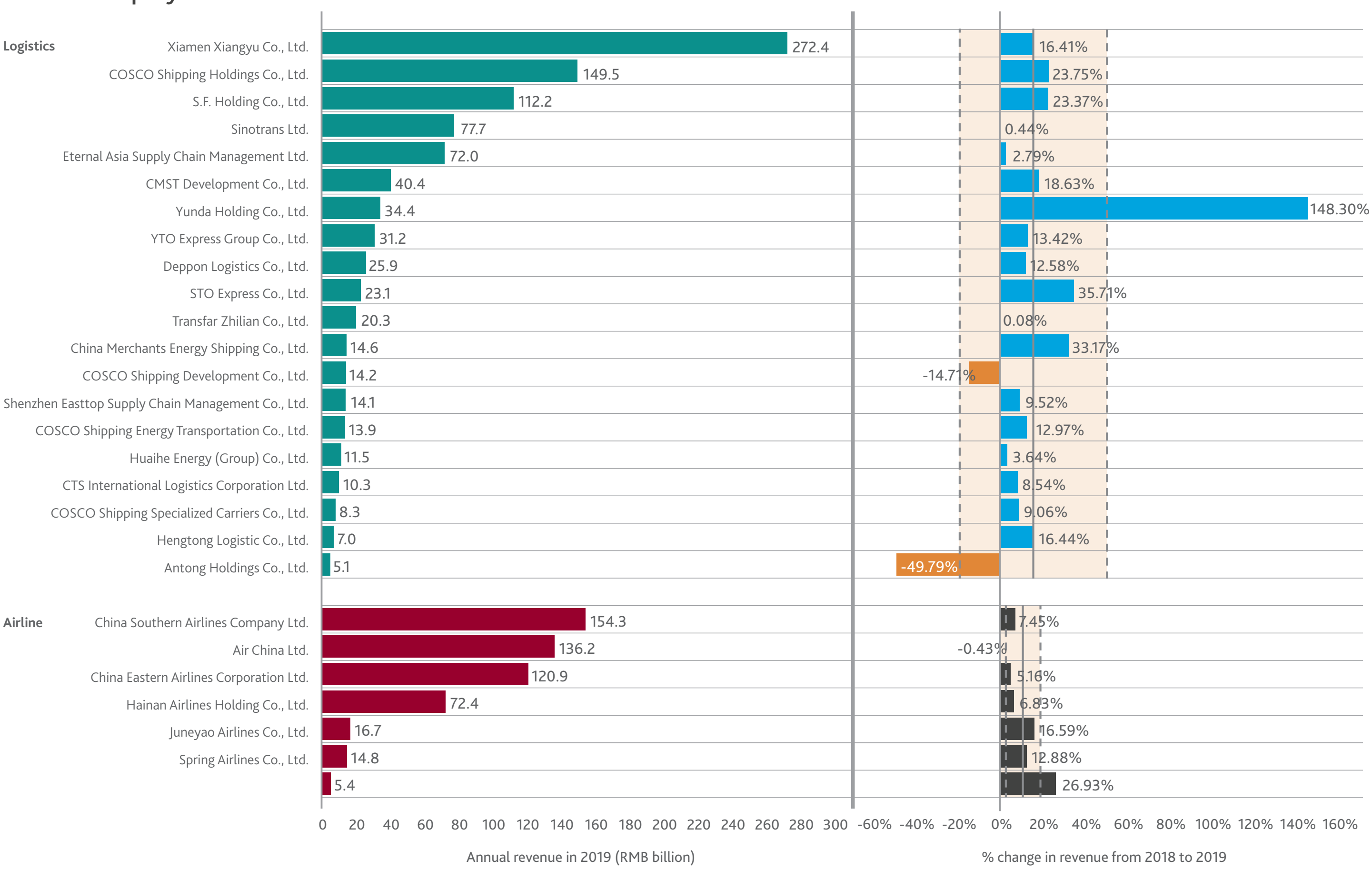
Ticket	Company name	Market capitalisation (RMB billion)	Rank by %
Airline			
601111.SH	Air China Ltd.	90.90	26.22%
600029.SH	China Southern Airlines Company Ltd.	79.77	23.01%
600115.SH	China Eastern Airlines Corporation Ltd.	70.36	20.30%
601021.SH	Spring Airlines Co., Ltd.	41.24	11.90%
600221.SH	Hainan Airlines Holding Co., Ltd.	29.30	8.45%
603885.SH	Juneyao Airlines Co., Ltd.	21.16	6.10%
002928.SZ	China Express Airlines Co., Ltd.	13.93	4.02%
Total		**346.66**	**100.00%**
Logistics			
002352.SZ	S.F. Holding Co., Ltd.	369.09	41.49%
601919.SH	COSCO Shipping Holdings Co., Ltd.	64.03	7.20%
002120.SZ	Yunda Holding Co., Ltd.	54.30	6.10%
600233.SH	YTO Express Group Co., Ltd.	44.17	4.97%
601872.SH	China Merchants Energy Shipping Co., Ltd.	38.82	4.36%
600026.SH	COSCO Shipping Energy Transportation Co., Ltd.	28.14	3.16%
002468.SZ	STO Express Co., Ltd.	23.07	2.59%
Other companies		268.02	30.13%
Total		**889.64**	**100.00%**

Source: S&P Capital IQ

Chart 2 shows the total revenue for the airline and logistics industries in the PRC in 2019, as well as movements in revenue between 2018 and 2019.

Although Yunda Holding Co., Ltd. (002120.SZ)'s revenue in 2019 was ranked seventh within the logistics industry, its market capitalisation ranked third within that industry. This may be explained by the relatively high revenue growth of 148.3% reported by the company from 2018 to 2019. The growth exceeded one standard deviation from the mean of the revenue growth within the logistics industry.

Chart 2: Company revenue



Source: S&P Capital IQ

Set out below is a summary of the analyst consensus reports for the revenue in 2020 and 2021 for PRC listed companies (ie A-shares) in the airline and logistics industries. **Chart 3** reflects the projections from the reports available in September 2019, and **Chart 4** is based on information from the reports of September 2020.

Chart 3: Median revenue from reports as at 30 September 2019

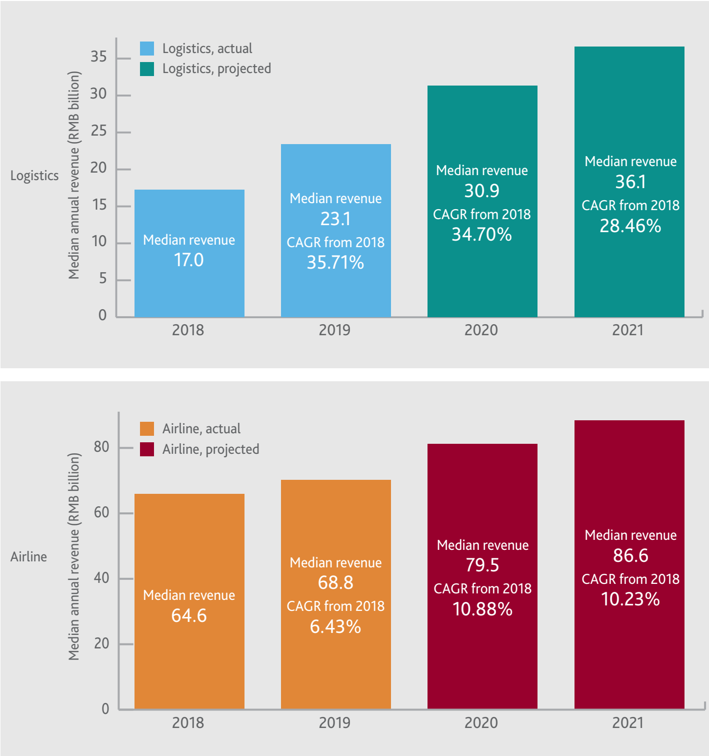
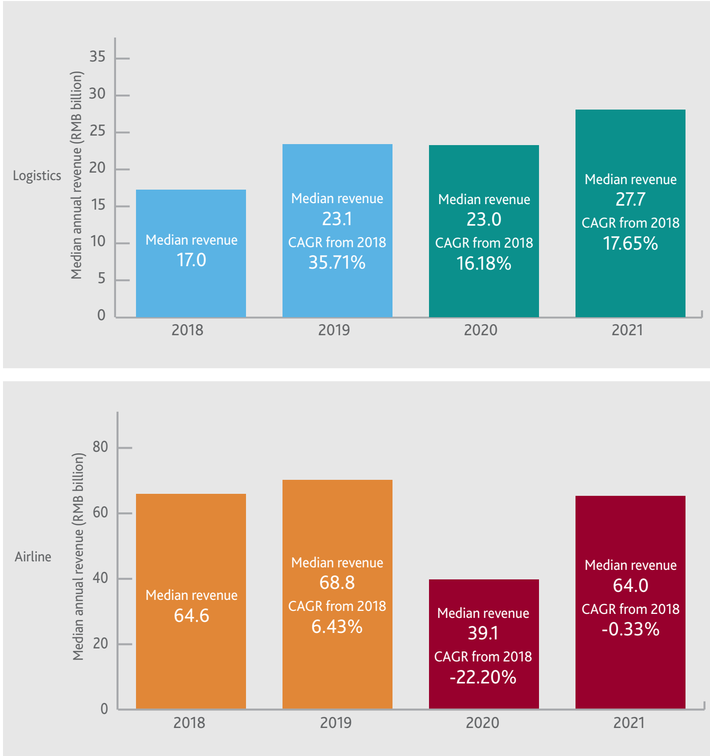


Chart 4: Median revenue from reports as at 30 September 2020



Source: S&P Capital IQ

Note: the median revenue figures above excluded companies without consensus estimates in 2020 and 2021.

The above reflects the changes in the market perception towards both industries before and after the outbreak of COVID-19. According to the analyst consensus as at September 2019, it was projected then that the airline and logistic industries will both experience rapid growth from 2018 to 2021. The projected compound annual growth rate (CAGR) of revenue was 10.22% and 28.46% for the airline industry and logistic industry respectively. However, according to the analyst consensus a year later as at September 2020, the projected CAGR of the revenue had decreased to -0.33% and 17.65% for airline and logistic industries respectively.

In conclusion, our BI review above shows how market perception has changed dramatically in just one year due to the virus outbreak. More importantly, it reveals that the logistic industry is expected to be the main revenue growth driver for the transportation sector for 2021. In addition, median revenues for the airline industry is expected to rebound from the decline in 2020 to the level in 2018.

Our service

Our Specialist Advisory Services department can assist clients to analyse financial market data to generate real-time and in-depth insights into the following:

- KPIs for various industries;
- geographic segment and revenue stream movements;
- predicted future growth in business and industry areas;
- relationships between macroeconomic factors and market sentiment;
- profit margin and cost component trends;
- real estate market activity indicators;
- industry-specific cash conversion cycles;
- industry-specific weighted average cost of capital; and
- business growth scenarios.

These focused BI services will help our clients better understand market dynamics, macroeconomic changes, new business opportunities, market strategies and business operation risks.

BDO's data and valuation team

Our team is ready to support you on any data and valuation-related matters, with contact details for the directors of the team given below. If you do require support or have any queries, please reach out to them.

KENNETH YEO
Specialist Advisory Services
kennethyeo@bdo.com.hk

ERIC PAT
Specialist Advisory Services
ericpat@bdo.com.hk

INSIGHTS INTO SUSPENSIONS OF LISTED COMPANIES

A listing suspension serves to protect the interests of investors and the public by ensuring that trading activities take place on a fully informed basis under fair and orderly market conditions. The latest delisting framework published by the Stock Exchange of Hong Kong Limited (the Exchange) and the implementation of the relevant amendments to the listing rules aim to provide a degree of certainty about the procedures for delisting long-suspended listed companies. They also aim to facilitate the timely delisting of poor-quality companies, while encouraging those companies that have been suspended to act promptly to resume their listing. In line with the delisting framework, the Exchange has also introduced specific suspension requirements for listed companies with a disclaimer or an adverse audit opinion. The intention is to incentivise these listed companies to improve the quality and reliability of their financial information and to act promptly to resolve any audit issues.

While a suspension may be initiated voluntarily or involuntarily, the latest amendments to the rules push listed companies to respond to any issues promptly in order to shorten their suspension period. More importantly, listed companies have to be vigilant about self-regulation; thus improving governance, strengthening management and product quality, and improving information transparency.

Initiating a suspension

A suspension can be initiated by the listed company itself or by the market regulators; namely, the Exchange and the Securities and Futures Commission (SFC). Companies may seek a suspension, for example, to facilitate important announcements about price-sensitive information, due to material corporate activities (such as a placement or rights issue), or because of fundamental concerns about their suitability for continued listing (such as involvement in material litigation, liquidation or cessation of operation). Suspension by the regulators varies from case to case and can occur when the Exchange is of the view that the company has seriously breached the listing rules; for example, by failing to publish financial results, disclose inside information or maintain sufficient operations and assets to support its operations. The SFC may also direct the Exchange to suspend the trading of shares in any listed company under the Securities and Futures Ordinance (SFO) if a company's documents or announcements appear to contain any materially false, incomplete or misleading information. A trading suspension allows the company in question to formally address the matters of concern to the satisfaction of the regulators, thereby protecting existing and potential investors.

Keys to the latest delisting framework

The amendments to the delisting framework and other listing rules became effective on 1 August 2020 (the effective date). The key elements of the changes are related to the criteria and timescales for delisting:

1. Fixed period for delisting

This new criterion allows the Exchange to delist issuers whose trading has been suspended for a continuous period of 18 months (the prescribed period).

2. New delisting process

The new delisting process allows the Exchange to publish a delisting notice specifying a set period of time (the specific remedial period), which may be shorter than the prescribed period, for the issuer to remedy the relevant underlying issues if it considers such issues ought to be put right sooner. Examples may include an issuer with an insufficient public float, or an issuer that has failed to take adequate action to remedy certain issues that are prolonging the suspension period.

In exceptional circumstances or where appropriate, the Exchange may delist an issuer immediately if it considers that the events triggering the application of a delisting criterion are fundamental to the general principles of listing and are beyond remedy. For example, if an issuer's management and its controlling shareholder are found to have conducted fraudulent activities to overstate its business and profits, it will no longer be suitable for listing.

3. Removal of practice note 17

The previous practice note 17 (PN17), a three-stage delisting procedure for issuers without sufficient operations or assets, has been removed, as the Exchange may now delist PN17 issuers under either the fixed period for delisting criterion or the new delisting process. The Exchange has also addressed the transitional arrangements for issuers whose securities have been suspended continuously since before the effective date.

The rule amendments allow the Exchange to promptly delist issuers that no longer meet the Exchange's criteria for continued listing. They also provide certainty to the market on the delisting process, so as to maintain the quality and reputation of Hong Kong SAR's securities market.

Guidance on long-term suspension and delisting

The Exchange has also published guidance letter HKEX-GL95-18 (the guidance letter) to provide information to issuers that have been suspended for a long time about how the new delisting regime operates, their general obligations and the Exchange's regulatory actions during the resumption process. It also provides guidance specific to certain types of suspension cases.

The guidance letter stresses that the deadline for the specific remedial period is intended to allow enough time for the relevant issues to be resolved, the vetting process to be carried out by the Exchange, compliance with the listing rules to be resumed, and trading to be resumed. Otherwise, when the specific remedial period expires, the Exchange may cancel the listing of an issuer that has already been suspended for a long time. Therefore, to avoid delisting, it is critical to devise a resumption plan with a well-defined timeframe so that the relevant issues can be remedied and the listing rules can be complied with again as soon as practicable before the specific remedial period ends.

Amongst the suspension cases that the Exchange discusses in the guidance letter, it is worth highlighting those suspended issuers that have failed to publish financial results or inside information due to alleged material accounting or corporate irregularities, or significant weaknesses in internal controls, as these are frequently seen to be reasons for suspension that may lead to serious issues that are difficult to resolve.

Common accounting irregularities, usually detected by the auditors, may involve discrepancies between the company's accounting records on transactions and those from third parties or independently obtained by the auditors. They may also involve concerns about the authenticity of company documents (such as accounting records on bank balances) and about the nature and commercial substance of certain material transactions.

Weaknesses in internal controls can be indicated by a lack of information and evidence to substantiate the existence or ownership of material assets, or by the failure to keep proper books and records. Suspension is often triggered by corporate irregularities, such as potentially fraudulent activities that are discovered by the board of directors, auditors, media, market commentary or rumour, or the SFC or other regulators.

The issuers must satisfy the Exchange that the above irregularities have been addressed and remedied in order to meet the resumption conditions. This includes addressing audit issues raised by the auditors and addressing allegations or findings of material irregularities raised by forensic investigators, the media, market commentary or rumour, or the regulators. Outstanding financial statements and financial statements containing material misstatements or errors must be rectified and subsequently published. More importantly, management integrity, along with adequate internal controls and procedures to rectify such material control weaknesses, must be demonstrated. The Exchange stresses that the main condition for resumption is that the issuer has ensured compliance with the listing rules and safeguarded the interests of the issuer.

Latest suspension requirement for listed issuers with a disclaimer or an adverse opinion

In May 2019, the Exchange published the conclusions of its consultation on the proposed trading suspension requirement that applies to issuers with a disclaimer or an adverse audit opinion on their financial statements. It considered that the previous listing rule did not adequately address such concerns, since several issuers did not take prompt or adequate action to address their audit issues, resulting in repeated disclaimers of opinions. Given that a disclaimer of opinions indicates a risk of material and pervasive misstatements to the financial statements, the Exchange is concerned about the reliability of the financial information; consequently, it will now normally require a trading suspension if the auditor has issued or has indicated that it will issue a disclaimer or an adverse audit opinion on the issuer's annual financial statements.

Trading will remain suspended until the issuer has addressed the matters that gave rise to the disclaimer or adverse opinion, provided 'comfort' that such a disclaimer or adverse opinion would no longer be required, and disclosed sufficient information for investors to make an informed assessment of the issuer's financial position. Examples of how an issuer could provide comfort that a disclaimer or an adverse opinion would no longer be required may include publishing a full financial year audit or a special interim audit of the issuer's financial statements, or engaging the auditor to perform an audit of a single financial statement.

Although the issue of a disclaimer or an adverse opinion will almost always require a trading suspension, the suspension requirement will not apply if: (1) the disclaimer of opinion relates to a going concern issue only; or (2) the issues that gave rise to the disclaimer or adverse opinion are resolved before the annual results are published and those issues are disclosed with sufficient information to enable investors to make an informed assessment of the company's financial position.

Recent trends in regulatory action

With the latest delisting framework and suspension requirements in place, the Exchange has the power to set a shorter specific remedial period. In addition, if a resumption condition cannot be fulfilled before the end of the specific remedial period, the listing committee will immediately cancel the listing of any securities to protect investors and maintain an orderly market. The Exchange has been closely monitoring each suspended issuer's ongoing compliance with the listing rules and its progress towards resumption through reviewing their quarterly and other announcements, making enquiries and requesting supplementary announcements; it has also been changing the requirements in the resumption conditions and guidance where appropriate, while providing continuous guidance to issuers who seek it.

Looking at the monthly prolonged suspension status reports of issuers listed on the Main Board that have been suspended for three months or more, the five most common reasons for trading suspensions are: (1) experiencing severe financial difficulties, ceasing to operate their business (or businesses) or entering delisting procedures; (2) irregularities have been identified, or regulatory investigations are taking place; (3) failure to publish financial results, or material internal control weaknesses have been identified; (4) a disclaimer and an adverse audit opinion have appeared on the financial statements; and (5) failure to inform the market of material information, or having an insufficient public float.

A resumption of trading may also mark the beginning of an investigation by the SFC enforcement department (within the listing division) under the SFO into the listed issuers and their officers for past breaches of the listing rules and regulations, which could ultimately result in disciplinary action, where appropriate. According to SFC enforcement letters, the most common enforcement themes or investigations pertain to: (1) breaches of directors' duties; (2) inaccurate, incomplete or misleading disclosure; (3) breaches of procedural requirements relating to notifiable and connected transactions; and (4) financial reporting issues.

Insights into suspension trading and the resumption process

The reasons for a trading suspension vary from case to case. Some companies are suspended because of a disclaimer or an adverse opinion that is due to irregularities uncovered by their auditors during an audit. Others may be suspended as a result of their failure to publish their annual results by the deadline, as required under the listing rules.

Issuers are encouraged to stay vigilant to avoid trading suspension by strengthening their governance framework and by establishing and maintaining appropriate and effective risk management and internal control systems (including measures to control and manage controlled entities and associates). They should keep proper books and records, actively engaging and communicating with their auditors before and during the audit to resolve any audit issues quickly.

Once suspended from trading, issuers should seek the resumption of trading as soon as possible. Given the prescribed period of 18 months, it is important for issuers to devise a resumption plan with actions to demonstrate their intentions to remedy the issues and resume their compliance with the listing rules, and to promptly announce their plan and timetable for resumption. Depending on the nature of the underlying issues, the Exchange will impose specific resumption conditions and will not allow any resumption unless and until those conditions are met. Fulfilling resumption conditions to the Exchange's satisfaction is a long process and is unlikely to be a straightforward task. Practical points that issuers should consider when seeking a resumption of trading, especially due to identified irregularity issues or investigations by the regulators, include:

- establishing a special independent committee by the board to conduct investigations and review the issues;
- engaging forensic accountants, as an investigation is normally required when accounting irregularities from audit concerns or possible fraudulent activities have been identified;
- demonstrating an adequate internal control system for risk management;
- demonstrating the integrity and competence of the directors and senior management;
- assessing the relevant issues identified by the SFC and seeking the approval of resumption from the SFC; and
- publishing regular update announcements after being vetted by the Exchange in order to inform the market of the latest developments in the investigation and the resumption process.

For more information about the regulation of listed companies suspension, please contact Vivian Chow, Principal of Risk Advisory Services.

VIVIAN CHOW
Risk Advisory Services
vivianchow@bdo.com.hk

NEW APPOINTMENT

CARMEN CHEUNG
Principal
Assurance Services

Carmen Cheung has been appointed as Principal of Assurance Services with effect from 1 October 2020.

Carmen has extensive experience in handling assignments of listed and private companies operating mainly in Hong Kong and Mainland China over a wide variety of industries including real estate development, retail, manufacturing and trading and plantation business.

Carmen is also involved in various transaction support assignments, such as initial public offerings, merger and acquisition exercises, as well as financial due diligence investigations for listed companies.

Qualifications and professional affiliations
- Hong Kong Certified Public Accountant

RAY SIU
Principal
Assurance Services

Ray Siu has been appointed as Principal of Assurance Services with effect from 1 October 2020.

Ray has extensive experience in handling Hong Kong, Singaporean and Australian listed company audit assignments over a wide variety of industries, including information technology (mobile game, online shopping and other e-commerce), food processing and trading, manufacturing, property development and management. He is also involved in corporate finance projects including initial public offerings and other capital market transactions.

Qualifications and professional affiliations
- Hong Kong Certified Public Accountant

LEO YEUNG
Principal
Assurance Services

Leo Yeung has been appointed as Principal of Assurance Services with effect from 1 October 2020.

Leo has extensive experience in handling assignments of listed companies and private companies operating mainly in Hong Kong and Mainland China over a wide variety of industries including IT company, manufacturing and trading, and comprehensive biopharmaceutical R&D services.

Leo is also involved in various transaction support assignments including initial public offerings, mergers and acquisitions, financial due diligence and other capital market transactions.

Qualifications and professional affiliations
- Hong Kong Certified Public Accountant

JANICE CHAN
Principal
Technical and Training

Janice Chan has been appointed as Principal of the Technical and Training Department with effect from 1 October 2020.

Janice has extensive experience in providing assurance services to listed and private companies operating in Hong Kong and Mainland China as well as other multinational corporations.

Janice is now focusing on providing accounting technical reviews support and rendering training to professional staff in the firm on the latest developments of Hong Kong Financial Reporting Standards.

Qualifications and professional affiliations
- Hong Kong Certified Public Accountant
- Member of the American Institute of Certified Public Accountants

WHAT HONG KONG EMPLOYERS NEED TO KNOW ABOUT THE LATEST UPDATES ON STATUTORY MATERNITY LEAVE

Good news for all mothers-to-be who are employed in Hong Kong. The government of Hong Kong SAR has just announced that female employees will receive four more weeks' statutory maternity leave (SML) from 11 December 2020. Women who are eligible should take the additional leave continuously after their 10 weeks' SML comes to an end.

The Employment (Amendment) Ordinance 2020 sets out the following enhancements to maternity benefits:

1. Employers must provide eligible employees whose date of confinement is on or after 11 December 2020 with an extra four weeks' SML on top of the current ten weeks.
2. Employers must pay the 14 weeks' statutory maternity leave pay (SMLP) to eligible employees. The government will reimburse them for the extra four weeks' SMLP afterwards.
3. SMLP will still be calculated at four-fifths of an employee's average daily wages (please see the notes below).
4. The amount reimbursed for the additional four weeks' SMLP is calculated at four-fifths of an eligible employee's average daily wages, up to HK$80,000 per employee (this cap may be reviewed and adjusted from time to time).
5. The Amendment Ordinance also covers two technical changes. These are:
   (i) updating the definition of 'miscarriage' so that women who have a miscarriage at any time from 24 weeks after conception (previously 28 weeks) will be eligible for maternity leave; and
   (ii) accepting a certificate of attendance issued by a professionally trained person as documentary proof that an eligible employee is entitled to sickness allowance for any day on which she has attended a pre-natal examination (currently a medical certificate certified by a registered doctor is required).

Details of how the government will reimburse employers for additional maternity leave paid to employees under the Amendment Ordinance are not yet available. Once we have received any updates about the reimbursement system, we will inform APERCU readers as soon as possible.

The four-week increase of paid SML will align Hong Kong with the International Labour Organization (ILO)'s recommendation as well as other jurisdictions, such as those of Japan and the People's Republic of China (both of which provide 14 weeks' SML covering pay at 66.7% and 100% of employees' wages, respectively) (see **table 1** for further information).

Table 1

Country/Special Administrative Region (SAR)	Time (weeks)	% of wages covered
Asia		
Hong Kong SAR	14 weeks (from 11 December 2020)	80%
Macau SAR	10 weeks (from 26 May 2020)	100%
People's Republic of China	14 weeks	100%
Japan	14 weeks	66.7%
Republic of Korea	13 weeks	100%
Singapore	16 weeks	100% for 1st and 2nd child
Comparable OECD countries		
Australia	52 weeks (parental leave)	18 weeks paid at federal minimum wage
Canada (provinces may vary)	17 weeks	55% (up to a limit) for 15 weeks
France	16 weeks	100% (up to a limit)
United Kingdom	52 weeks	6 weeks at 90%; weeks 7-39 at the lower of 90% or a flat rate; weeks 40-52 unpaid
United States (states may vary)	12 weeks	Unpaid

Source: ILO

Notes
1. SMLP will be calculated on the basis of an employee's average daily wages (see note 2) earned in the 12-month period preceding the specified date as stipulated by the Employment (Amendment) Ordinance 2007 (ie the first day of their maternity leave).
2. The Employment Ordinance defines 'wages' as all remuneration, earnings, allowances, tips and service charges, however designated or calculated, payable to an employee in respect of work done or work to be done. Allowances including travel allowance, attendance allowance, commission and overtime pay (see note 3) are within the definition of wages.
3. Overtime pay should be included in SMLP calculations if:
   - it is of a constant nature; or
   - its monthly average over the past 12 months is at least 20% of the employee's average monthly wages during the same period.

When the Amendment Ordinance comes into effect, it will not change the criteria that a female employee must meet to be entitled to maternity leave, as set out in chapter 57 of the Provisions of Employment Ordinance as follows:

- the employee has been employed under a continuous contract for not less than 40 weeks immediately before the commencement of scheduled maternity leave;
- she has given notice of pregnancy and her intention to take maternity leave to her employer after the pregnancy has been confirmed (for example, the presentation of a medical certificate confirming her pregnancy to the employer); and
- she has produced a medical certificate issued by a registered doctor specifying the expected date of confinement if so required by her employer.

The enhancement of maternity benefits aims to safeguard the health of female employees and newborn babies by aligning with the advantages of longer periods of maternity leave as stipulated by the ILO. According to the ILO, longer periods of maternity leave result in lower rates of premature births, pregnancy and postpartum depression, and reduces maternal, infant and child mortality.

According to the statistical information published by the Census and Statistics Department, the year-on-year birth rate for Hong Kong has been reducing dramatically since the 1950s. The October 2020 issue of the Hong Kong Monthly Digest Statistics published by the Census and Statistics Department indicated that the crude estimate for the birth rate in 2019 was just seven births per 1,000 people.

It is expected that the 2020 Amendment Ordinance will have a positive impact on Hong Kong families and it is hoped that this will raise the low birth rate in Hong Kong in the future.

Speak to our payroll professionals

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

JOSEPH HONG
Payroll and HR Outsourcing Services
josephhong@bdo.com.hk

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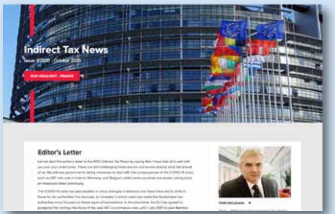

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- **HKFRS/IFRS Updates 2020/11**
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IBOR REFORM - PREPARING FOR A WORLD WITHOUT LIBOR

You might not be familiar with the term 'interbank offered rates' (IBORs), but you should have heard about the London Interbank Offered Rate (LIBOR) in your daily life. LIBOR, which is probably the most widely used interbank discount rate, is mostly used as a basis for pricing various types of financial contracts, such as mortgages, bonds, loans, derivatives and structured financial products. LIBOR also appears in non-financial contracts; for example, some lease payments are indexed to LIBOR.

Apart from LIBOR, other examples of IBORs are the Euro Interbank Offered Rate (EURIBOR), the Tokyo Interbank Offered Rate (TIBOR) and the Hong Kong Interbank Offered Rate (HIBOR).

IBORs are currently in the process of being reformed or replaced. There is a general expectation that some of the main IBORs will no longer be available by the end of 2021, even though contracts that refer to them will remain in force. Is this transition simply an exercise of replacing one reference rate with another? How will the IBOR reform affect entities reporting under International or Hong Kong Financial Reporting Standards (IFRS/HKFRS)?

What is IBOR reform?

An IBOR is an interest reference rate that represents the cost of obtaining unsecured funding, in a particular combination of currency and maturity, and in a particular interbank term lending market. They are publicly accessible and are often calculated on the basis of daily submissions of designated panel of global banks. These submissions are often based on where a bank thinks it could lend, not necessarily on actual transactions.

Since the financial crisis in 2008, the long-term viability of IBORs has been called into question and, following a fundamental review by the Financial Stability Board,[1] numerous jurisdictions have developed plans to replace IBORs with 'alternative reference rates' (ARRs), such as risk-free rates (RFRs). RFRs are calculated on the basis of information gathered from more active and liquid overnight lending markets, and they are expected to be less susceptible to potential manipulation.

While some jurisdictions (eg the UK and the US) have adopted the approach of replacing IBORs with RFRs, other jurisdictions (eg Europe, Hong Kong and Japan) have decided to apply a multiple-rate approach, in which new RFRs will be implemented alongside existing local IBORs.

What are the new reference rates?

Industry working groups have been set up in different jurisdictions to raise awareness in the local market and facilitate the transition. **Table 1** provides selected examples of benchmarks that will be replaced or whose calculation method either has changed or is expected to be changed.

What are the key differences between IBORs and RFRs?

The two key differences between IBORs and RFRs relate to term and credit.

1. Term

IBORs are forward-looking term-based rates which are quoted for different tenors (overnight/spot next, one week, one month, two months, three months, six months and twelve months). They are known at the start of the relevant interest period, so borrowers know what the interest rate will be at the time of borrowing. On the other hand, RFRs are backward-looking overnight rates that are based on actual historical transactions. Because they are published at the end of the overnight borrowing period, they are not known in advance. By definition, overnight RFRs do not have different tenors.

2. Credit

To compensate for the risk of default over the term, premiums are incorporated into IBORs to reflect the term risk and the counterparty risk.

Table 1: Benchmarks to be altered or replaced

	UK	US	Europe	HKSAR
Local currency	Sterling (GBP)	US dollar (USD)	Euro (EUR)	HK dollar (HKD)
IBOR	GBP LIBOR	USD LIBOR	Euro Interbank Offered Rate (EURIBOR) and EUR LIBOR	HIBOR
Alternative rate	Sterling Overnight Index Average (SONIA)	Secured Overnight Financing Rate (SOFR)	Euro Short-term Rate (€STR)	HKD Overnight Index Average (HONIA)
Nature	Unsecured	Secured	Unsecured	Unsecured
Approach to transition	Transition to SONIA Improvements have been made to SONIA and have been implemented from April 2018. LIBOR is expected to cease after the end of 2021	Transition to SOFR SOFR has been published since April 2018. LIBOR is expected to cease after the end of 2021	Multiple-rate approach The method of calculating EURIBOR was improved in Q4 2019. EURIBOR is expected to continue alongside €STR beyond 2021	Multiple-rate approach Enhanced HIBOR is expected to continue alongside HONIA beyond 2021
Underlying transaction	Money markets	Repo transactions	Money markets	Money markets

1. The Financial Stability Board is an international financial body created by the G20. It monitors and makes recommendations about the global financial system.

RFRs, however, are near-risk-free rates, which incorporate minimal credit risk or liquidity premiums. **Figure 1** illustrates that in most instances, LIBOR was higher than the Overnight Indexed Swap (OIS) rate because LIBOR includes a bank credit premium.

Is the IBOR reform simply replacing one rate with another?

There is a common misconception that the IBOR transition is simply an exercise that removes an IBOR from a financial contract and replaces it with an alternative RFR. In fact, the underlying processes are much more complicated. The very nature of an IBOR (term rate) is different from that of an RFR (overnight rate), so the rates cannot simply be substituted without changing the underlying contract. Therefore, adjustments have to be applied to RFRs (see **figure 2**) to establish fallback rates[2] that are comparable to the current IBOR structure.

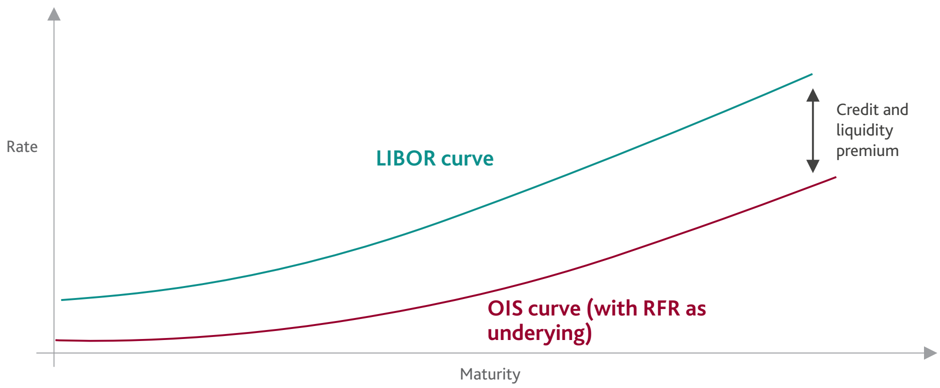
The International Swaps and Derivatives Association (ISDA) has held several consultations to help transition the derivatives market away from LIBOR. According to ISDA publications, the fallback rate will be constructed by adjusting the RFR in the following ways:

- Firstly, the RFR will be compounded over the payment period to produce a term interest rate. These rates are backward-looking term rates, so the rate to be paid will be known at the end of the period.
- Secondly, a spread adjustment will be added to account for the difference in basis (liquidity spread, credit spread). This spread will be calculated using the five-year historical difference between the compounded RFR and the IBOR.
- Thirdly, for operational and payment purposes, the calculation period will be shifted back by two business days.

In October 2020, the ISDA issued a protocol[3] for amending its standard definitions for interest rate derivatives in order to incorporate robust fallbacks for derivatives linked to certain IBORs,[4] with the changes coming into effect on 25 January 2021. From that date, all new cleared and non-cleared derivatives that reference the definitions will include the fallbacks.

Regarding cash instruments (ie financial instruments that are not derivatives), while their nature, similar to derivatives, varies across jurisdictions, product types and agreements, there is no central organisation like the ISDA that can coordinate efforts to enact standard protocols. Therefore, the parties will need to negotiate on a contract-by-contract basis.

Figure 1: Differences between term RFRs and LIBOR

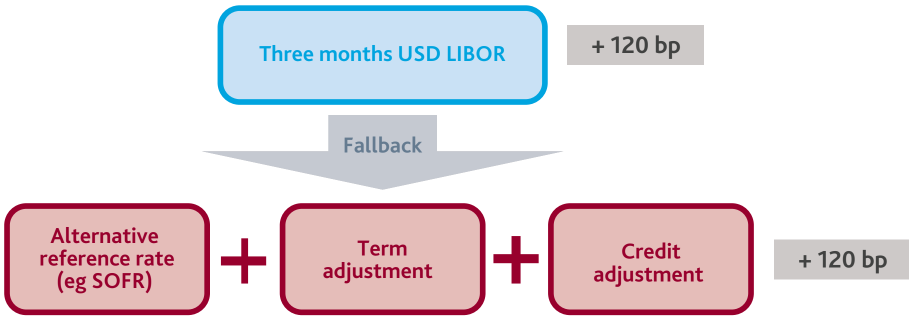


Source: Bank of England

Table 2: Key differences between IBORs and RFRs

IBOR	RFR
Determined on the basis of information contributed by banks	Determined by actual transactions
Forward-looking	Backward-looking
Term rate	Overnight rate
Term and credit risk built in	Near risk-free, with minimal credit risk

Figure 2: Components of the fallback rate



The reform of the benchmarks in Hong Kong

Although the global IBOR reform has an impact on HIBOR, the Hong Kong Monetary Authority (HKMA) has published the statement[5] that it has no plans to discontinue HIBOR in Hong Kong but will use the Hong Kong Dollar Overnight Index Average (HONIA) as an alternative reference rate. Under a multiple-rate approach, HIBOR will run parallel with HONIA beyond 2021 and market participants will be free to choose between them.

It is more pressing for Hong Kong banks to work on the transition from LIBOR than on the transition from HIBOR. According to a HKMA survey of the Hong Kong banking sector, about 35% of the LIBOR exposures that mature after the end of 2021 contain no adequate fallback language in the contract, and by 31 March 2020 only 61% of banks had firm-wide transition plans in place. More information on the survey results is provided in **table 3**.

The HKMA[6] has proposed a number of LIBOR transition milestones, which authorised institutions are expected to achieve (see **table 4**).

What are the financial reporting implications of the IBOR reform?

IBOR reform not only affects financial institutions but also may be a significant issue

2. Fallbacks are the contractual provisions that determine what rate counterparties should use if the benchmark rate that was initially agreed upon is not available.
3. The ISDA 2020 IBOR Fallbacks Protocol and the IBOR Fallbacks Supplement, 23 October 2020
4. It covers IBOR rates for the following currencies: GBP, CHF, USD, EUR, JPY, AUD, CAD, HKD, SGD and THB
5. https://www.hkma.gov.hk/eng/news-and-media/insight/2019/05/20190502
6. https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200710e1.pdf

for corporates that have IBOR-based financing or funding that is hedged using IBOR-based derivatives.

Even if an entity has no contracts that reference an IBOR, the reform could have an indirect effect on how discount rates are calculated. Therefore, it could have consequential effects on fair value measurements. Examples of areas that might be affected include:

- provisions where IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) applies;
- defined benefit obligations where IAS 19 (Employee Benefits) applies; and
- value-in-use model for the impairment assessment of non-financial assets where IAS 36 (Impairment of Assets) applies.

To address the issues that may affect financial reporting during the IBOR reform, the International Accounting Standards Board has issued two phases of amendments: phase 1 in September 2019[8] and phase 2 in August 2020.[9] The aim of these amendments is to ensure that the financial statements present only the true economic effects of the reform. They have provided targeted relief from applying specific IFRS requirements to transactions that are directly affected by the IBOR reform; in particular, avoiding widespread modification gain/loss calculations on financial instruments measured at amortised cost, and avoiding disruption to hedge accounting.

Phase 1 amendments

Phase 1 focuses on issues relating to hedge accounting – given that the exact timing and pattern of the transition to a new alternative benchmark rate remains unknown, uncertainties regarding the timing and amount of future cash flows of hedged items and the hedging instruments could result in hedges being de-designated. Phase 1 provides temporary relief from applying specific requirements for hedge accounting to hedging relationships directly affected by the IBOR reform. This will allow entities to continue their hedge accounting relationships. However, the amendments are not intended to provide relief if a hedging relationship no longer meets the requirements for hedge accounting for any reason other than those set out in the phase 1 amendments, and any hedge ineffectiveness should continue to be recorded in the income statement under both IAS 39 (Financial Instruments) and IFRS 9 (Financial Instruments).

Phase 2 amendments

Phase 2 deals with issues affecting financial reporting when actually replacing an existing IBOR with an alternative benchmark rate. One question that is often asked is 'how should an entity reflect the changes in a loan from an IBOR to an alternative benchmark rate?' IFRS 9 has detailed rules on modifying financial contracts, which can sometimes result in the immediate recognition of a gain or loss in the income statement on the date of modification. There is a concern that such outcomes may not reflect the economic effects of the modified financial instruments that are solely due to the IBOR reform.

To provide useful financial information to those who use financial statements, a practical expedient has been introduced in the phase 2 amendments. By applying the practical expedient, an entity can simply update the effective interest rate in the same way that they would account for changes in market rates of interest in respect of a floating rate financial instrument, and no immediate gain or loss is recognised. This relief applies only to changes that are both necessary as a direct consequence of the IBOR reform and where the new basis for determining the contractual cash flows is economically equivalent to the previous basis. A similar practical expedient has also been provided to lessees when accounting for lease modifications under IFRS 16 (Leases). It is worth noting that the phase 2 amendments do not include 'bright lines' for what is considered to be 'economic equivalent'. An entity is therefore required to apply judgement when assessing whether the circumstances meet the economic equivalence condition.

In addition, the phase 2 amendments provide several exceptions to the requirements for hedge accounting, enabling entities to update hedge documentation with the impact of the IBOR reform at the time of the transition, without leading to discontinuation. Similar to phase 1, phase 2 does not provide any exceptions in the measurement requirements for hedged items and hedging instruments. Once the hedged risk or the hedging instrument switches to the new benchmark rate, it should be remeasured using the new rate.

Given that some IBORs are likely to disappear in less than a year's time, we recommend that borrowers who have not developed a plan for IBOR replacement should be proactive in understanding what the potential exposures are, become familiar with the relief that is available, and consider the accounting consequences before changes are made to contracts in order to ensure that they are as intended and that accounting systems and processes will implement this accounting in practice.

Table 3: Highlights of the HKMA survey[7]

As at end of March 2020	Assets	Liabilities	Derivatives
Total LIBOR exposures	HK$4.8 trillion	HK$1.6 trillion	HK$34.7 trillion
LIBOR exposures which will mature after the end of 2021 without adequate fallback language in the contract	HK$1.7 trillion	HK$0.6 trillion	HK$17.4 trillion
% of LIBOR exposures which will mature after the end of 2021 without adequate fallback language in the contract	35%	39%	50%

Table 4: LIBOR transition milestones set by HKMA

Timeline	Milestones
1 January 2021	• Incorporate adequate fallback provision for all newly issued LIBOR-linked contracts that will mature after 2021 • To be in a position to offer products referencing the ARRs
30 June 2021	• Cease to issue new LIBOR-linked products that will mature after 2021

Speak to our professionals

Please feel free to contact us to find out how we can help by providing you with a tailored solution.

WINNIE CHAN
Financial Reporting Advisory
winniechan@bdo.com.hk

[7] https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200710e1a1.pdf
[8] Effective for annual periods beginning on or after 1 January 2020. Earlier application is permitted.
[9] Effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

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.

DATA PRIVACY ISSUES IN THE COVID-19 PANDEMIC PERIOD – COLLECTION OF ADDITIONAL PERSONAL DATA INCLUDING HEALTH DATA

AUG 31

Organisations may need to collect additional personal data including health data from their employees and other relevant persons in order to help monitor and prevent the spread of the COVID-19 in the workplace. Many people would have the impression that collection of health data are sensitive and intrusive. Organisations may question whether they are permitted to collect the additional personal data during the COVID-19 pandemic period, and how they should handle such data.

Manager of Risk Advisory **Sacha Chiu** shared his knowledge on the general rules of collecting additional personal data. He also provided guidance on health data usage and disclosing personal data to third parties, together with insights on internal control including data security and retention matters. Participants had a fruitful exchange on the data privacy issues during the pandemic with speaker and one another through online platform.

EXTRA-TERRITORIALITY OF THE EU'S GENERAL DATA PROTECTION REGULATION (GDPR) – APPLICATION TO NON-EU COMPANIES

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

SEP 15

A cross country webinar with BDO in Mauritius discussing the General Data Protection Regulation (GDPR) has received wide acclaim. With GDPR's extra-territorial application, non-EU companies which run business in any EU member states or collect personal data from EU citizens also need to comply with the GDPR. Breaching of the GDPR may result in heavy penalties and precautions need to be taken to minimise the risk of violation.

Manager of Risk Advisory **Sacha Chiu** and Senior Analyst of BDO in Mauritius Rodney Zéphyr provided an introduction to GDPR, its extra-territorial application as well as the special categories of personal data/sensitive defined by the GDPR. They also discussed the penalties of violating the regulation through analysing business cases.

OVERVIEW OF DIFFERENCES OF EMPLOYMENT RELATED LEGISLATIONS BETWEEN HONG KONG AND MACAU SARS

SEP 16

Hong Kong and Macau have lots of similarities in respect of their colonial background but there are huge differences between both SARs with regards to their legal systems, monetary systems, languages, economy, etc.

Director and Head of Payroll & HR Outsourcing Services **Joseph Hong** and Manager of Payroll & HR Outsourcing Services **Josephine Yau** compared the key aspect and highlighted the latest amendments of tax and employment related legislations between Hong Kong and Macau. More than 140 audience joined the webinar and shared their challenges in handling these issues.

SECURITY RISKS EMERGE IN DIGITAL TRANSFORMATION

- A joint webinar with Introv & Mulesoft

SEP 23

Are you going to let IT risk hold you back from adopting new technologies, or are you going to manage the risks and move forward? This is a crucial question that each business is facing under the current era of digital transformation.

A joint webinar with Introv & Mulesoft addressing IT risks during digital transformation was conducted successfully on 23 September 2020. Senior Manager of Risk Advisory **Roger Lo**, Consulting Manager of Introv Limited Steven Leong and Regional Director Greater China of MuleSoft Brett Nulf examined the challenges introduced by digitalisation and shared insights on best practice for accelerating digital transformation. Cybersecurity control and successful transformation stories were also discussed.

Roger Lo (left) and Steven Leong (right)

THE EVOLVING ROLE OF INTERNAL AUDITOR IN THE PUBLIC SECTOR

SEP 28

Internal audit helps public sector organisations achieve accountability and integrity, improve operations, and instil confidence among citizens and stakeholders. The pressure to drive a positive risk management culture and implement robust controls for public sector internal auditors is especially intensified in the current pandemic.

The webinar examining the role of internal audit in driving a positive governance and risk management culture in the public sector including the government, quasi-government, as well as the non-governmental organisations and entities has attracted over 200 audiences with positive feedbacks. Principal of Risk Advisory **Vivian Chow** also explored the current trends impacting public sector organisations and how internal audit can help build on its core and support activities to strengthen governance and control processes.

VIRTUAL WORKSHOP: DISCUSSION ON WORK-RELATED DATA PRIVACY ISSUES

OCT 09

Have I collected excessive personal data? Can I use the data for a certain purpose? How should I use and store the data in a secured way? How long should I retain the data? What are the consequences if I violated the Personal Data (Privacy) Ordinance? You may experience and be confused about various kinds of data privacy issues when handling personal data relating to your clients or colleagues during daily work.

To address the work-related data privacy issues, a focus group discussion was conducted on 9 October 2020. Manager of Risk Advisory **Sacha Chiu** discussed the frequently asked questions about the data privacy issue such as personal data usage, storage as well as the penalties of violating the Personal Data (Privacy) Ordinance. Participants actively shared their questions which they encountered during daily work and sought professional advice from speaker.

HOW TO BETTER MANAGE THE RISKS INVOLVED IN VENDOR CONTRACTS

OCT 21

Companies may need to appoint external service providers/vendors for supplying various kinds of services and products. Dealing with vendor contracts usually involves administrative and legal issues. Improper handling of those contracts may result in financial and reputational losses.

Over 260 audience attended the webinar discussing the potential risks involved in vendor contracts with positive and enthusiastic response. Manager of Risk Advisory **Sacha Chiu** explained the administrative and legal issues involved in handling vendor contracts such as the retention of contracts, file access right, vendor s' performance assessment and dispute resolution with fellow participants. He also provided recommendations on better managing the risks concerned.

SURVEY: RETHINK AND INNOVATE

OCT 28

Under the pandemic, companies from various sectors are facing the significant impact of COVID-19, some may even need to temporarily suspend their businesses. A BDO survey was conducted to examine the latest annual reports and/or ESG reports of Hong Kong constituency stocks in order to study the impact of COVID-19 on the business operations and their immediate responses to the unprecedented impact.

In this webinar, the participants have acquired deeper knowledge on the impact of COVID-19 on the business operations in Hong Kong through the survey results sharing by Director and Head of Risk Advisory **Ricky Cheng** and Manager of Risk Advisory **Joyce Woo**. They also analysed companies' immediate responses to COVID-19 including the measures for mitigating disruptions and sustaining business, and whether innovative strategies have been deployed in exploring new businesses and markets.

Please click https://www.bdo.com.hk/en-gb/insights/research/bdo-survey-rethink-and-innovate-how-listed-companies-respond-to-covid-19-challenges if you would like to obtain a copy of the survey.

ANTI-CORRUPTION MEASURES RELATING TO PROCUREMENT PROCESS

NOV 10

Appointing external service providers/vendors for supplying different kinds of goods and services for instance security service, cleaning service, raw materials, consultancy and/or sub-contracting service are very common nowadays. Both purchasers and vendors should be very careful during the procurement process as the risk on corruption and issues always appear in the process.

Over 250 participants attended the session and gained knowledge about the Prevention of Bribery Ordinance and the Independent Commission Against Corruption Ordinance through the detailed explanation by Manager of Risk Advisory **Sacha Chiu**. He also shared his insights on managing conflict of interest and other corruption issues relating to inviting quotations or tenders and bidding for the relevant projects/assignments. In addition, some corruption preventive measures were provided.

HK/IFRS TECHNICAL UPDATE

NOV 20

Due to the impact of COVID-19, additional consideration and adjustments are likely to be required when preparing for the upcoming annual reporting season. Director and Head of Financial Reporting Advisory **Simon Riley** and Principal of Financial Reporting Advisory **Winnie Chan** highlighted the latest accounting standards developments, practical application challenges and commonly-asked questions in developing a robust ECL impairment model, together with some tips on performing debt modification vs extinguishment assessment under HK/IFRS 9.

Other hot topics such as IBOR reform and how companies should account for different forms of government assistance were also covered. More than 360 audience attended the webinar and raised questions and shared their challenges during the session.

OPERATING IN HONG KONG AND CHINA
- A webinar for Japanese clients

DEC 14

During the difficult time of COVID-19, Hong Kong still maintained its competiveness as a hub for stock market listings and the global leadership in IPO capital of the world. Investors in Asia are broadly optimistic about the pandemic's negative economic impact as COVID-19 in many Asian countries has become under control. It is expected that the economic and corporate earnings growth are going to pick up in 2021 when viable coronavirus vaccines are introduced. In anticipating the rapid comeback in post-pandemic economy, some multinational corporations have expanded their businesses into Hong Kong, including Japanese enterprises.

Director and Head of Payroll & HR Outsourcing Services **Joseph Hong** and Senior Manager of Assurance **Takayuki Kamiya** highlighted the Hong Kong corporate, tax and employment related compliance requirements and provided guidance on adapting to new normal and post-pandemic recovery. They also discussed the government subsidies for supporting enterprises in China during the pandemic. Principal of Tax **Leo Li** discussed and answered participants' questions with his experience and expertise.

(From left to right) Leo Li, Joseph Hong and Takayuki Kamiya