



TechWatch

News at a glance

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TechWatch updates you on technical developments in financial reporting, auditing, regulation and business. The Institute welcomes your comment, emailed to < commentletters@hkicpa.org.hk >. Click [here](#) for past issues.

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Financial Reporting, Auditing and Ethics

New!

1. New Sessions for HKFRS for Private Entities Workshops and TUE

The Institute will hold a new session on the HKFRS for Private Entities Workshops in January 2012 and two new TUE sessions on (i) New and Revised Accounting Standards/ Guidance for the year ending 31 December 2011 and (ii) New standards on consolidation, joint ventures and disclosure – HKFRS 10, 11 and 12, on 11 November and 20 December 2011, respectively.

To secure seats, please register early by completing the [registration form](#).

2. Joint Seminar on The Audit of Licensed Corporations

The Institute and the Securities and Futures Commission will jointly hold a seminar on The Audit of Licensed Corporations on 29 November 2011. The [seminar](#) will cover the following topics:

- Highlight of the key reporting responsibilities of the auditors
- Discussion of topical issues and areas of concern over applying PN 820
- Impact of the key Auditing Standards issued
- Observations about past misappropriation of client assets cases
- Circularization of client accounts

3. 2011 SMP Symposium

The Institute will hold SMP Symposium on 29 November 2011 and discuss the following:

- Tax Update

- Institute Update
- Combating against Bogus CPAs
- Technical Update on Accounting and Auditing Standards
- Technical Update on Revised Code of Ethics
- Meet the LegCo Representative

To secure seats, please register early by completing the [registration form](#).

Members' Handbook

4. Handbook Update No. 108

[Update No. 108](#) contains revisions on HKSIR 400 *Comfort Letters and Due Diligence Meetings*.

Key revisions to the standard include:

- Aligns more closely with international practices
- A limited assurance approach is now permitted when reporting on subsequent changes, whereas previously the reporting was in the form of agreed-upon-procedures
- Clarifies that HKSIR 400 also applies to offerings of debt securities
- Additional illustrative examples of arrangement letters covering international offerings and debt offerings
- Additional illustrative example of a comfort letter for debt offerings
- An illustrative example bring-down letter

The revised standard is effective for comfort letters and due diligence meetings in respect of investment circulars dated on or after 1 January 2012, with early adoption permitted.

Financial Reporting

5. Highlight on HK Interpretation 5

The Institute issued **HK Interpretation 5** Presentation of Financial Statements –

Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("Interpretation 5") in November 2010 to draw attention to the requirements of HKAS 1 *Presentation of Financial Statements*, which requires classification of loans with "repayment on demand" clauses as current liabilities.

The Institute also issued the **Financial Reporting and Auditing Alert Issue 11** in November 2010 to bring the issue to the attention of the market to encourage all borrowers to re-examine the terms of their borrowings and to discuss or negotiate with their lenders to ensure that contract terms reflect the commercial reality of the loans, and that financial statement disclosures correctly and consistently reflect the classification of borrowings, as required by HKAS 1. In some cases borrowers may be able to obtain "comfort letters" from their lenders indicating that loans will not be called within the next twelve months.

Entities may have obtained the abovementioned comfort letters in 2010 which enable entities classifying the concerned loans as non-current liabilities in its 2010 financial statements. The Institute would like to remind practitioners that those comfort letters may only have been valid for 12 months in nature and hence entities may require to arrange new comfort letters from banks to enable them to continue classifying those relevant bank loans as non-current liabilities in their 2011 financial statements.

To assist members and other stakeholders in completing this exercise, the Institute has developed a series of **Questions and Answers** on the topic and **Example Disclosures** to illustrate the potential effect of restatements if non-current liabilities need to be reclassified as current liabilities.

6. FRSC Minutes

FRSC minutes on 6 September 2011 cover:

- Consideration of IASB consultative documents
- Annual Accounting Update Conference 2011
- Proposed joint seminar with Hong Kong Institute of Surveyors for the visit of the Chairman of the International Valuation Standards Council
- Technical issue raised by Professional Monitoring Expert Panel
- Matters related to AOSSG

7. Invitation to Comment on IASB ED of Government Loans

The Institute has issued an **Invitation to Comment** on IASB ED of *Government Loans (Proposed amendments to IFRS 1)*, with comments requested by **15 December 2011**.

The proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets out how a first-time adopter would account for a government loan with a below-market rate of interest when the company first adopts IFRSs. If adopted, this amendment would provide the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

8. Institute Comments on IASB EDs

- (i) IASB ED of *Mandatory Effective Date of IFRS 9*

The Institute generally supports deferral of the effective date of IFRS 9 for the reasons set out in its **submission** to IASB on ED of *Mandatory Effective Date of IFRS 9*.

However, the Institute noted that the expected timeline for completing the remaining phases of the project to replace IAS 39 and the insurance contracts project is currently still unknown, and an appropriate amount of lead time is needed to perform proper field testing of the requirements of these standards. The Institute also believes that it would be necessary to allow entities sufficient time to implement IFRS 9. In this respect, there should be a time interval of at least eighteen months between the date of issuance of the final standards for all phases of IFRS 9 and the insurance contracts project and the date of the beginning of the comparative period, as time will be required for many financial institutions and other entities to determine the requirements of the new standards and make the necessary changes to their processes and systems, which may include having to design, develop and test new systems.

Hence, the Institute is of the view that an appropriate deferred effective date (which has to be after 1 January 2015 based on the IASB latest published work plan) should be determined by the IASB which take into account these considerations.

(ii) IASB ED of *Proposed Improvements to IFRSs* (Fourth Set)

In its [submission](#) to IASB on ED of *Proposed Improvements to IFRSs* (Fourth Set), the Institute generally agrees that the proposed amendments are appropriate matters to be addressed in the Annual Improvements Project and are in overall agreement with the intentions of the proposed amendments.

However, the Institute considers additional clarification would be required for some of the proposed amendments. In particular the Institute notes that the amendments to IAS 1 *Presentation of Financial Statement – Clarification of requirements for comparative information* introduce a number of terms (for example, "comparative information" and "required comparative period") for which a definition is not provided. This could create

inconsistencies in application and may have unintended consequences. It is believed that the use of clearly defined terms will contribute to the clarity of the scope and effect of the proposed amendments.

Audit & Assurance

9. AASC Minutes

[AASC minutes](#) on 20 September 2011 mainly cover:

- Revised PN 600.1 *Reports by Auditors under the Hong Kong Companies Ordinance*
- Revised PN 830 *Reports by Auditors Under the Banking Ordinance*
- Proposed *Notes for Auditors of the Quality Education Fund Grantees*.

10. Invitation to Comment on ED of Revised PN 830

The Institute has issued an [Invitation to Comment](#) on the ED of Revised PN 830 *Reports By the Auditor Under the Banking Ordinance*, with comments requested by **19 December 2011**.

The AASC has embarked on a project, with the assistance of the Institute's Banking Regulatory Liaison Group, to align the extant PN with the development of the auditing and assurance pronouncements issued. As part of the project, the proposed revised PN 830 has been updated to align with the clarified HKSAAs and best practices in the industry.

The proposed revised PN has been prepared in consultation with the Hong Kong Monetary Authority and the key revisions are:

- References have been revised to reflect the clarified HKSAAs
- Improvement changes made to Appendices 1 to 3 to ensure consistency among the wordings used in example reports, example management representation letters and example engagement letters

- Footnotes added in Appendix 1 for guidance on Bannerman language in example reports
- Example 6 of Appendix 1 has been revised to better describe the agreed-upon procedures
- Example management representation letters of Appendix 2 and example engagement letters of Appendix 3 have been revised to align with the clarified HKSAs. Additional paragraphs have been added in these example letters for clarification purposes

11. Chinese Versions of Standard Bank Confirmation Request Form

The Institute developed the Chinese versions of standard bank confirmation request form for use in Hong Kong and in the PRC in relation to audit of Hong Kong companies.

- [Traditional Chinese pdf version \(for use in Hong Kong\)](#)
- [Traditional Chinese word version \(for use in Hong Kong\)](#)
- [Simplified Chinese pdf version \(for use in the PRC in relation to audit of Hong Kong companies\)](#)
- [Simplified Chinese word version \(for use in the PRC in relation to audit of Hong Kong companies\)](#)

12. Revised Circular on Reporting on the Audit of Schools

The Institute issued the [Revised Circular on Reporting on the Audit of Schools](#) to provide guidance to auditors in relation to audits of financial statements of aided and Direct Subsidy Scheme ("DSS") schools (irrespective of whether they are Incorporated Management Committee ("IMC") or non-IMC schools), which are required to comply with the accounting requirements of the Education Bureau.

This guidance is not applicable to the audit of aided and DSS schools with management committees incorporated under the Hong Kong Companies Ordinance, or who themselves are incorporated under the Hong Kong Companies Ordinance, as their financial statements are required to comply with the Hong Kong Companies Ordinance and they should be prepared in accordance with HKFRSs.

Ethics

13. Ethics Committee Minutes

[EC minutes](#) on 27 July 2011 cover:

- Joint Declaration on the Converged CICPA Code of Ethics for Professional Accountants and HKICPA Code of Ethics for Professional Accountants
- The Institute's educational activities on the HKICPA Code of Ethics for Professional Accountants

International Meetings

14. International Accounting Standards Board

The IASB met on 19-20 October 2011 and discussed the following topics:

- Annual improvements
- IFRS 9: Financial instruments: Amortized cost and impairment of financial assets
- Fair value measurement
- Impairment
- Insurance contracts
- Leases
- Revenue recognition
- Education session: Accounting for financial instruments: disclosures
- Work plan

Click to view the IASB Update on the meeting on [19-20 October](#). The IASB next meets in November 2011.

15. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in November 2011. Click [here](#) for the next meeting's details.

16. International Auditing and Assurance Standards Board

The IAASB next meets in December 2011. Click [here](#) for the next meeting's details and previous meeting summary.

17. International Ethics Standards Board for Accountants

The IESBA next meets in February 2012. Click [here](#) for the next meeting's details and previous meeting summary.

Useful Resources

18. Publications

The following are publications on various topics:

- (i) Hans Hoogervorst, IASB chairman, [addressed](#) the European Parliament
- (ii) IASB [article](#) on using outreach activities to get views of investors
- (iii) Ernst & Young [publication](#) on Challenges in applying IFRS 10 *Consolidated Financial Statements*
- (iv) [FAQs](#) by PwC on share-based payments
- (v) [IASB letter](#) on accounting for available-for-sale sovereign debt
- (vi) [Reminder](#) by KPMG on effective dates of IFRSs
- (vii) [Illustrative financial statements](#) by KPMG

(viii) [Executive summary](#) by KPMG on overview of IFRSs

(ix) [Practical guide](#) by PwC on fair value measurement

(x) [IFAC letter](#) on its recommendations for the G20

Comment Due Dates

9 November 2011: IASB Request for Views on Agenda Consultation 2011

14 November 2011: IIRC Discussion Paper *Towards Integrated Reporting – Communicating Value in the 21st Century*

15 December 2011: IASB ED of *Investment Entities*

15 December 2011: IASB ED of *Government Loans (Proposed amendments to IFRS 1)*

19 December 2011: ED on Revised PN 830 *Reports By the Auditor Under the Banking Ordinance*

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

19. IIRC Announces Selection of Global Companies to Lead its Pilot Programme

The International Integrated Reporting Committee ("IIRC") has announced that over 40 leading companies from around the world, including CLP Holdings Limited and HSBC Holdings plc, have been chosen as participants in its integrated reporting pilot programme. The selected companies would be given the opportunity to demonstrate global leadership in this emerging approach to corporate reporting. Click for [more details](#) and the [full list](#) of selected companies.

Corporate Finance

20. Institute Submits Views on the Bill Introduced on Disclosure of Price Sensitive Information

As reported in [TechWatch no. 105](#) (item 15), the [Securities and Futures \(Amendment\) Bill 2011](#) ("the Bill") was introduced to the Legislative Council ("LegCo") on 29 June to give statutory backing to price sensitive information ("PSI") disclosure requirements. The Institute has been invited by the LegCo Bills Committee to submit comments on the Bill.

The Institute's [submission](#) to the Bills Committee indicates that it is concerned about the interpretation and practical implementation of the legislation, which relies heavily on guidelines and frequently asked questions ("FAQs") to be developed by the Securities and Futures Commission ("SFC"), and will be updated from time to time. In view of the importance of the SFC guidelines and FAQs to the understanding and application of the legislation, the Institute strongly recommends that the initial set of SFC guidelines, and also FAQs covering issues identified at the

consultation stage, should be considered together with the Bill, as a single overall package of proposals.

The current submission also reiterates the following matters raised in its [submission](#) to the government in July 2010 during the consultation phase:

- the need for clarification of various matters in relation to the definition of PSI
- the scope of "officer", in particular, the meaning of "manager", should be defined more narrowly
- a "business judgment rule"-type of safe-harbour should be provided in the law
- a settlement arrangement for less severe or less clear cut cases be introduced, and certain sanctions be reconsidered
- rather than being granted direct access to the Market Misconduct Tribunal, the SFC should continue to be required to refer cases of suspected breaches to the Financial Secretary to initiate proceedings
- the need for the existence of effective ongoing channels of communication between listed companies and the SFC to ensure timely disclosure of meaningful information to the market

Representatives of the Institute met Bills Committee members on 14 October, where Institute explained the key points in its submission in more detail.

21. Streamline Property Valuation Requirements for Listing Applicants and Listed Issuers

On 20 October, the SFC and the Hong Kong Stock Exchange ("HKEx") jointly published [consultation conclusions](#) on proposed changes to property valuation requirements for listing applicants and listed issuers. See [TechWatch no. 102](#) (item 17(i)) for the Institute's submission.

The market supported the proposals, which streamline requirements for property valuation disclosure in prospectuses and circulars, particularly for property interests that are not related to property development and investment activities.

In implementing the proposals, the SFC and HKEx have refined the requirements relating to mining activities and fine-tuned the drafting of the class exemption notice and the listing rules in response to market comments.

Subject to negative vetting by the LegCo, the class exemption notice will become effective on 1 January 2012, and the listing rule amendments will take effect on the same date.

22. Rules Changes on Listing of Debt Issues for Professional Investors

HKEx has recently published [consultation conclusions](#) on the listing of debt issues for professional investors only. See [TechWatch no. 102](#), item 17(iii) for the Institute's submission.

In view of the support for most of the proposals, the following will be implemented:

- relevant rules to be presented in a more accessible language
- definition of "professional investor" to be aligned with that in the Securities and Futures Ordinance ("SFO")
- eligibility criteria to be broadly unchanged
- application and approval procedures to be simplified
- prescribed disclosures for listing documents to be replaced with a requirement to include information that is customary for offers of debt securities to professionals
- continuing obligations on issuers that are not appropriate for offers available only to professionals to be removed

The [amendments to main board listing rules](#) and the [amendments to GEM listing rules](#) will come into effect on 11 November 2011.

23. SFC Conclusions and Further Consultation on Short Position Reporting Rules

On 18 October, the SFC published the [conclusions](#) of its [consultation](#) on the Securities and Futures (Short Position Reporting) Rules ("May consultation") and further consulted the public on the matter, with comments requested by **4 November**.

Under the May consultation, a gross short position that hits the threshold of 0.02% of the issued share capital of a listed company, or a market value of \$30 million, whichever is lower, has to be reported to the SFC on a weekly basis. Only short positions in the constituent stocks of the Hang Seng Index, the Hang Seng China Enterprises Index and other financial stocks specified by the SFC will be subject to reporting. In general, the party who beneficially owns the short position will be responsible for the reporting. The SFC will provide an electronic reporting facility and a report template, and publish aggregated short positions of each stock a week after the receipt of the reports.

Noting the industry's feedback about difficulties in reporting short positions on a gross basis, the SFC invites comment on a proposal to modify the rules to require reporting of net short positions.

Other than the above, the SFC will be adopting the short position reporting rules as proposed in the May consultation, which, subject to the legislative process, will be implemented in the first quarter of 2012.

24. HKEx Launches Issuer Services for Listed Corporations

In addition to introducing the [Basic Market Prices \("BMP"\) service](#) on 1 April 2011, whereby listed companies may display their real-time stock price on their company websites, HKEx is launching a series of issuer services,

aimed at improving communication between listed companies and the investment community.

Initially, such services include:

- “Know the Listed Companies” conferences – HKEx will organize monthly conferences inviting representatives from listed companies of the same industry, sector, or theme to brief the audience, who are expected to be institutional investors, analysts and other market professionals, on the most updated company information.
- Market Open Ceremonies – Representatives and guests of listed companies will be invited to open the market at the HKEx securities market’s trading hall to mark the start of the trading day. Video clips and photos of the ceremony will be hosted on the HKEx website.

HKEx also plans to offer referral based market intelligence and communications services to facilitate listed companies’ understanding of their shareholders and how they are perceived by investors.

25. Consultation on Proposed Regulatory Regime for OTC Derivatives Market

The Hong Kong Monetary Authority (“HKMA”) and SFC issued a [joint consultation paper](#) on the proposed regulatory regime for Hong Kong’s over-the-counter (“OTC”) derivatives market, with comments requested by **30 November**.

As the local OTC derivatives market is relatively small compared with other major markets and the OTC derivatives market is global in nature, the focus has been on developing a regime that is on a par with international standards but takes into account local market conditions and characteristics.

The main proposals are:

- The proposed regime will be set out in the SFO, and will be jointly overseen and regulated by the HKMA and SFC

- OTC derivatives transactions will have to be reported to the trade repository, which is being set up by the HKMA
- Standardized OTC derivatives transactions will have to be centrally cleared through a designated central counterparty
- Initially, OTC derivatives transactions will not be required to be traded on an exchange or electronic trading platform. Further study is needed to assess how best to implement such a requirement in Hong Kong
- As OTC derivatives activities of authorized institutions (“AI”) are already subject to the HKMA’s regulatory oversight, non-AI entities that engage in OTC derivatives activities are to be licensed for a new Type 11 regulated activity under the SFO
- Large players who are not regulated by the HKMA or the SFC may be subject to certain obligations and requirements, such as producing information regarding their OTC derivatives activities, and reducing their OTC derivatives positions, if so requested by the SFC

Corporate Governance

26. Consultation Conclusions on Review of the Corporate Governance Code and Associated Listing Rules

On 28 October, HKEx published its consultation conclusions on the review of the code on corporate governance practices and associated listing rules (see [TechWatch no. 99](#) (item 24) and [no. 102](#) (item 18) for details of the consultation paper and the Institute’s submission respectively).

HKEx explained that given the broad market support, most of the proposals outlined in the consultation paper would be adopted, subject to certain modifications as set out in the consultation conclusions. Having consulted the SFC, the implementation dates will be as follows:

- most of the listing rule amendments will be effective on 1 January 2012
- the code and certain rules will be effective on 1 April 2012
- a new rule requiring the issuer to appoint independent non-executive directors representing at least one-third of the board must be complied with by 31 December 2012
- a new rule requiring company secretary training will be staggered according to the date of appointment of an individual as company secretary of an issuer

See the [press release](#) for a summary of the rules and Code adopted and their implementation dates.

Taxation

27. 2012 Annual Meeting with Inland Revenue Department – Call for Agenda

The next regular annual meeting between the Institute and Inland Revenue Department ("IRD") will be held in early 2012 to discuss matters of common interest or concern in relation to tax practice and procedure.

If you wish to suggest items for the Institute to raise at the meeting, please use [this form](#) to provide a brief and clear explanation of the issue, and return the form to the Institute via e-mail elena@hkicpa.org.hk, by **25 November 2011**.

The annual meeting focuses on matters of general concern, rather than discussing specific cases. You may also wish to look at the minutes of the previous meetings to confirm that particular issues have not already been raised and responded to in recent annual meetings. The 2011 minutes and past meeting minutes can be accessed on the websites of the [Institute](#) and [IRD](#).

28. Double Taxation Agreement with the Netherlands is Effective

The [double taxation agreement between Hong Kong and the Netherlands](#) came into effect on 24 October 2011. Click for [more details](#).

29. Revised Practice Notes

The following practice notes were recently revised:

- [Stamp Office Interpretation & Practice Notes no. 5](#) was revised to cater for the subsequent comments received from stakeholders.
- [Departmental Interpretation and Practice Notes \("DIPN"\) no. 32](#) was revised to reflect the revisions made in DIPN10 and DIPN21. Amendments are in paragraphs 6 and 67.

Legislation & Other Initiatives

30. Companies Registry Update

- The Companies Registry ("CR") has introduced new functions for Third Party Software Interface ("TPSI") and Bulk Submission ("BS") at the e-Registry. The TPSI function enables registered users to submit electronic files of specified forms ("e-form files") to the CR while the BS function enables registered users to submit documents up to 10 e-form files each time. See the [letter](#) on the new services.
- The data specification of the e-Form NC2 for the [TPSI](#) was updated on 24 October 2011.

31. Latest Anti-Money Laundering Notices

Members may wish to note that the following notices in relation to combating money laundering/terrorist financing:

- [Government notice 6664](#): Updated list of terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.

- **US executive order 13224**: The list relating to “Blocking property and prohibiting transactions with persons who commit, threaten to commit or support terrorism”.

For more AML-related circulars from the Office of the Commissioner of Insurance, click [here](#).

For more background information on the current law in Hong Kong relating to anti-money laundering, see the Institute’s [Legal Bulletin 1](#), “Requirements on anti-money laundering, anti-terrorist financing and related matters”.

Useful Resources

32. Library Resources

Featured titles and **new books** of high reference value for members are now available. In addition, members can [login](#) to the **e-Library** and access e-journals and e-books on a wide range of business subjects.

33. Other Publications

The following articles/publications on topical issues may be of interest to members:

(i) HKEx published:

- Guidance letter in relation to conditions for waivers from strict compliance with main board rule 4.04(1) ([GL25-11](#)).
- **Report** on initial public offering applications, delisting and suspensions (as at 31 October).

(ii) SFC published:

- **Issue no. 18 of Takeovers Bulletin** that highlights timing of disclosure of dealings in the time zones of the United States, updates on overseas companies with secondary listings in Hong Kong to which the Codes on Takeovers and Mergers and Share Repurchases do not apply and the activities of the Takeovers Team.

- A **report** summarizes key findings and recommendations of its annual review of the Stock Exchange of Hong Kong (“SEHK”)’s performance in its regulation of listing matters during 2010.

(iii) The Companies Registry Trading Fund **Annual Report 2010-11** published on 19 October 2011.

(iv) The Standing Committee on Company Law Reform **Twenty-Seventh Annual Report 2010/2011** issued on 24 October 2011.

(v) Articles on corporate governance by Deloitte:

- **Audit committee brief – PCAOB explores auditor independence and mandatory audit firm rotation**
- **Asia Pacific economic outlook – China, Japan, the Philippines, Singapore, and South Korea**
- **Taxes: What the audit committee should know**