



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@hki CPA.org.hk >. Click [here](#) for past issues.

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Financial Reporting, Auditing and Ethics

New!

1. Financial Reporting Seminar on Business Valuation

The Institute will re-run a Financial Reporting Seminar on Business Valuation on 19 March 2012 and the seminar comprises of (i) an introduction of Purchase Price Allocation; (ii) Common Methodologies on Business Valuation and Intangible Assets Valuation; and (iii) case study.

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

2. Technical Training and Support Program

The Institute will hold additional workshops for audit manager and audit practice manual application in March 2012.

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

Members' Handbook

3. Handbook Update No. 112

Update No. 112 relates to the issuance of New section 500 *Professional Ethics in Liquidation and Insolvency* which updates and replaces the existing section 432, *Integrity, objectivity and independence in insolvency*, of the Institute's Code of Ethics for Professional Accountants ("the Code") with effect from 1 April 2012. Section 500 provides a more comprehensive framework than the existing section 432. The structure of section 500 follows the framework of the main Code and adopts a principles-based approach. It sets out the five fundamental principles to which insolvency practitioners should adhere, the threats to compliance with the fundamental principles and the more common types of threat that insolvency practitioners may face in their work, together with examples of specific situations that may occur. Relevant examples from the existing section 432 have been retained and are

supplemented with additional examples in the new section 500.

Financial Reporting

4. Institute Comments on SME Implementation Group Draft Question and Answers on IFRS for SMEs

The Institute made a [submission](#) to the SME Implementation Group on its Draft Question and Answers ("Q&As") on (i) IFRS for SMEs (Section 30, Issue 1) – Recycling of cumulative exchange differences on disposal of a subsidiary; (ii) IFRS for SMEs (Section 11, Issue 1) – Fallback to IFRS 9 *Financial Instruments*.

The Institute generally agrees with the content of the draft Q&As and consider that they are helpful for the practitioners. In addition to the issuance of the Q&As, the Institute considers the issues should be further addressed when the post-implementation review on the standard is performed.

Ethics

5. Institute Comments on IESBA ED

The Institute made a [submission](#) to IESBA on its ED of Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code.

The Institute is supportive of the proposed changes to include a requirement that a professional accountant take whatever actions that might be available as soon as possible to satisfactorily address the consequences of a breach of a provision of the IESBA Code. For a breach of an independence requirement in the IESBA Code, a detailed framework is provided setting out the action to be taken. Specifically, the proposed changes would require a firm to:

- terminate, suspend, or eliminate the interest or relationship that caused the breach;
- evaluate the significance of the breach and determine whether action can be taken to satisfactorily address the consequences of the breach;

- communicate all breaches with those charged with governance and obtain their agreement with the proposed course of action; and
- document the actions taken and all the matters discussed with those charged with governance and, if applicable, any relevant regulators.

International Meetings

6. International Accounting Standards Board

The IASB next meets in March 2012. Click [here](#) for the next meeting's details.

7. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in March 2012. Click [here](#) for the next meeting's details.

8. International Auditing and Assurance Standards Board

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

9. International Ethics Standards Board for Accountants

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

Useful Resources

10. Publications

The following are publications on various topics:

- (i) Financial instruments:
 - [Press release](#) by IASB and US FASB to reduce differences for standards on financial instruments
- (ii) IASB's agenda consultation:
 - [Investor Perspectives](#) by IASB

- (iii) IFRS Foundation governance and strategy reviews:
 - [Review](#) by IFRS Foundation Monitoring Board and Trustees of IFRS Foundation
 - [IFRS Developments](#) by Ernst & Young
- (iv) 2011 financial statements preparation:
 - [IFRS news](#) by PwC
- (v) HKEx financial statements review programme:
 - [Report](#) by HKEx
- (vi) Mandatory effective date of HKFRS 9:
 - [HKFRS Update](#) by BDO
- (vii) Offsetting of financial instruments:
 - [HKFRS Update](#) by BDO

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

11. IFAC PAIBC Releases Report on Investor Demand for ESG Information

The Professional Accountants in Business Committee of International Federation of Accountants ("IFAC PAIBC") has published *Investor Demand for Environmental, Social, and Governance Disclosures: Implications for Professional Accountants in Business*, which considers the trends in investor demand for and use of environmental, social, and governance ("ESG") information, and recommends how professional accountants can better support their organizations in responding to these demands. The report also alerts professional accountants to essential metrics and indicators and includes a sector-neutral list of the most commonly used core performance indicators. In response to the challenges of ESG integration, the report also recommends five actions for the accountancy profession and professional accountants in business.

Insolvency and Corporate Restructuring

12. Institute Comments on Deposit Protection Board Guidance Note on Contingent Liabilities Estimations

The Deposit Protection Scheme Ordinance empowers the Hong Kong Deposit Protection Board ("DPB") to determine the value of contingent liabilities of depositors, by making an estimate where there is uncertainty as to the value of the contingent liabilities; the time to ascertain the value would unduly delay compensation payments; or the calculation would not be cost beneficial. The DPB consulted the Institute on a draft guidance note explaining the approaches to be adopted when the DPB exercises its powers to estimate the value of certain contingent liabilities of depositors arising from derivatives and trade finance transactions.

The Institute's **submission** points to some areas that require further elaboration and clarification. Given that the main purpose of the guidance is to speed up the payment process, the DPB is also asked to make clear that it will make every effort to avoid delays in the valuation process, and to consider, where possible, making partial initial payments to affected depositors.

13. Institute's Submission on Review of the Law Relating to Corporate Insolvency

The government is undertaking a major exercise to rewrite the Companies Ordinance ("CO Rewrite"). A **Companies Bill** (except those parts relating to disqualification of directors, winding-up of companies, receivers and managers, and prospectuses) was gazetted on 14 January 2011 and is now being scrutinized by the Legislative Council **Bills Committee on Companies Bill** ("Bills Committee").

The next phase of the CO Rewrite aims to review and modernize the company winding-up and insolvency regime, with a view to facilitating more efficient administration of the winding-up of companies and enhancing protection of creditors, having regard to international experience and practices.

The Technical Sub-committee of the Restructuring and Insolvency Faculty Executive Committee initiated its own review to identify areas of the CO relating to corporate insolvency that insolvency practitioners believe need to be amended, and made a **submission** to the government on proposals for legislative reform. In addition to making recommendations on certain policy matters, the submission examines in detail the main winding up provisions of the CO.

Taxation

14. Annual Meeting with the Inland Revenue Department – Filing Dates for 2011-12

The annual meeting between representatives of the Institute's Taxation Committee and the

Inland Revenue Department ("IRD") took place on 17 February 2012. Among the items discussed at the meeting, the filing deadlines for 2011-12 are highlighted for members' attention.

The IRD confirmed the following due dates for lodging profits tax returns for the year of assessment 2011-12:

Accounting date	Extended due date	Further extended due date (for electronic filing)
"N" Code	2-May-12 (no extension)	16-May-12
"D" Code	15-Aug-12	29-Aug-12
"M" Code	15-Nov-12	29-Nov-12
"M" Code (current year loss cases)	31-Jan-13	31-Jan-13

15. Tax Treaty Signed with Jersey

Hong Kong signed a double tax treaty with Jersey in February. Click to read the [announcement](#) and the [treaty's details](#).

16. Optional Notification Service for Address Change by Businesses

On 20 February, the Companies Registry and the IRD jointly introduced an optional electronic one-stop notification service in respect of change of address.

More details in [Q21](#), [Q21b](#) and [Q22a](#) of "[FAQ – One-stop Company and Business Registration and One-stop Notification of Change of Business Particulars](#)".

17. IRD Clarifies its Position on Deduction of Share-based Payments

The IRD has [announced](#) that deductions will be allowed for share-based payments between group companies (e.g., where a subsidiary is

charged for stock options or share awards in the parent company issued to employees of the subsidiary), provided there is a written recharge agreement. [FAQ 9](#) on the IRD website has been changed to reflect this. This addresses an issue raised by Institute's Taxation Committee at the 2010 annual meeting with the IRD, on which practitioners and the IRD had previously expressed differing views.

18. Legco Question on Special Stamp Duty

Please click for a [question on special stamp duty](#) raised in the Legislative Council on 29 February.

Legislation & Other Initiatives

19. LegCo Bills Committee Invites Further Comments on Retention of Headcount Test

The Bills Committee [invites views](#) on clause 664 of the [Companies Bill](#) (pages C1325 to C1329), which provides that the headcount test for approving a company's scheme of compromise or arrangement be retained, while the court is given the discretion to dispense with the test in special circumstances. This was one of the issues on which the government consulted in early 2010, under the first phase consultation of the draft Companies Bill. The Institute's views on this matter were summarized in [TechWatch no. 90](#) (item 20).

The Bills Committee has requested written comments on this issue by **14 March 2012**. Those wishing to make oral presentation to the Bills Committee on 23 March 2012 are required to complete and return the [reply slip](#), also by **14 March 2012**.

20. Companies Registry Update

- (i) The Companies Registry ("CR") has released [Companies Registry External Circular No. 1/2012](#) to announce the launch of new services on 20 February 2012 for electronic submission of four commonly filed specified forms at the [e-Registry](#) portal and paper submission of appointment/cessation of registered agents.

- (ii) The CR has updated a pamphlet on [Filing Requirements of a Local Limited Company after Incorporation](#).

21. Revised FATF Recommendations

The Financial Action Task Force ("FATF"), the international standard-setter for anti-money laundering ("AML") and combating the financing of terrorism ("CFT") has revised its recommendations. Amongst other things, the previous 40+9 recommendations on AML and CFT, respectively, have been combined. Click to read the [revised recommendations](#), which list the revised and previous recommendations on page 4.

22. Latest AML/CFT Notices

Members may wish to note that the following AML/CFT notices:

- [United Nations \(Anti-Terrorism Measures\) \(Amendment\) Bill 2012](#): The bill was introduced into the Legislative Council on 22 February 2012. A number of essential concepts in relation to the implementation of measures against terrorism were amended. Consequential amendments to the definition of "terrorist financing" under the [Anti-Money Laundering and Counter-Terrorist Financing \(Financial Institutions\) Ordinance](#) were also included, to maintain consistency between both laws.
- [FATF public statement](#): Draws attention of its members (Hong Kong has been a member since 1990) on the risks of transactions involving Iran, Democratic People's Republic of Korea, Bolivia, Cuba, Ethiopia, Ghana, Indonesia, Kenya, Myanmar, Nigeria, Pakistan, São Tomé and Príncipe, Sri Lanka, Syria, Tanzania, Thailand and Turkey.
- [Improving global AML/CFT compliance: on-going process](#): Draws the attention of FATF members to jurisdictions with deficiencies that pose money laundering/terrorist financing risks in the international financial system.

- [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 AML/CFT, see the Institute's [Legal Bulletin 1](#), "Requirements on anti-money laundering, anti-terrorist financing and related matters".

Useful Resources

23. 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.

24. Other Publications

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

- (i) Hong Kong Exchanges and Clearing Ltd. ("HKEx") published:
 - three listing decisions in relation to:
 - whether HKEx would consider the State of Delaware an acceptable jurisdiction of an issuer's incorporation ([HKEx-LD24-2012](#))
 - whether a listed issuer's proposal to issue rights shares under a general mandate would comply with the listing rules ([HKEx-LD25-2012](#))
 - whether a listed issuer could seek a prior mandate from its shareholders for conducting a rights issue under Rule 7.19(6) of the listing rules ([HKEx-LD26-2012](#))

- an updated listing decision in relation to whether HKEx would consider Alberta an acceptable jurisdiction of an issuer's incorporation ([HKEx-LD11-2011](#))
 - a guidance letter in relation to disclosure of intellectual property rights in listing documents ([HKEx-GL30-12](#))
 - [report](#) on IPO applications, delisting and suspensions (as at 29 February)
- (ii) The Securities and Futures Commission published a [quarterly report](#) for the period from Oct – Dec 2011
- (iii) Articles on corporate governance by Deloitte:
- [Highlights of the 2011 board practices report](#)
 - [Risk intelligent governance in the age of cyber threats – What you don't know could hurt you](#)
 - [COSO releases exposure draft of updated integrated framework on internal control](#) (see also [TechWatch no. 111](#))
 - [Asia Pacific economic outlook – China, Japan, Malaysia, Taiwan, and Vietnam](#)