



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

TechWatch

News at a glance



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

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Financial Reporting, Auditing and Ethics by:
Simon Riley (Editor), Ben Lo, Katherine Leung

Specialist Practices, Business Members and Advocacy by:
*Peter Tisman (Editor), Elena Chai, Mary Lam, Sharon Yeung
Wallace Wong*

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Financial Reporting, Auditing and Ethics

New!

1. New Technical Training Events in October and November

The New Technical Training Events covering the period from October to November 2012 has been developed to focus on three major areas of expertise – accounting, auditing and ethics.

- Presentation and disclosures of financial instruments – Impacts of HKFRS 7
- Introduction to internal controls: Concepts and what it may mean to you
- Training for Audit Managers
- Training for Audit Staff
- Audit Practice Manual Application Workshop
- Workshops for Group Accounting
- The Revised Code of Ethics
- HKFRS for Private Entities Workshop

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

2. Joint Financial Reporting Forum on HKFRS 10 for Asset Managers

A new financial reporting standard, HKFRS 10 *Consolidated Financial Statements* is effective for financial years beginning on or after 1 January 2013.

HKFRS 10 includes a new definition of control that determines which entities are consolidated. HKFRS 10 states that an investor controls an investee if it has power over the investee; exposure or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. HKFRS 10 includes, for the first time, guidance on how

these principles of control and consolidation apply to asset managers and others in a fiduciary position. However, this new guidance involves much judgement to apply practically.

Key to the assessment of control for asset managers involves determining whether the manager is acting as agent (that is, on behalf of others) or as principal (that is, for itself) when it makes decisions concerning the entity. If the asset manager is acting as principal, then the asset manager may need to consolidate the fund, even if the asset manager's interest in that fund is less than 50%.

The Institute will hold a Joint Financial Reporting Forum on the application of HKFRS 10 for fund managers on 25 September 2012. Industry experts and accounting professionals will provide a thorough overview of the new consolidation model and exchange views on the key factors that fund managers will need to consider in assessing whether they are a principal or an agent under HKFRS 10.

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

Financial Reporting

3. Invitations to Comment on Consultation Documents

- (i) IFRS Foundation Constitution – Drafting Review: Separating the Role of the IASB Chair and the Executive Director

The Institute has issued an [Invitation to Comment](#) on IFRS Foundation Constitution ("Constitution") – Drafting Review: Separating the Role of the IASB Chair and the Executive Director, with comments requested by **21 September 2012**.

The drafting review incorporates changes to the Constitution to reflect the separation of the role of Chairman of the IASB and Chief Executive Officer of the IFRS Foundation. This change is in line with the conclusions of the Monitoring Board Governance Review.

This separation has already been implemented following an internal structural reorganization at the end of 2011. The Chair of the IASB no longer serves as the CEO of the IFRS Foundation. Instead, this responsibility has been included in a new role of Executive Director.

(ii) IVSC Discussion Paper *The Valuation of Trade Related Property*

The Institute has issued an [Invitation to Comment](#) on the International Valuation Standards Council ("IVSC") Discussion Paper *The Valuation of Trade Related Property*, with comments requested by **17 September 2012**.

The IVSC first published GN 12 *The Valuation of Trade Related Property* in 2005 and updated it in 2007. In 2009 IVSC commenced its Standards Improvements Project which involved reviewing all previously issued IVSC publications. The IVSC Standards Board ("Board") originally proposed to update and replace GN12 with a new standard, IVS 232 *Trade Related Property*, and an exposure draft was released for public comment in June 2010, along with drafts of all the other standards that the Board was proposing to update.

The Board did not approve the draft IVS 232 for publication but instead agreed a project to undertake a review of the particular valuation issues raised by Trade Related Property ("TRP") and to decide the nature and extent of any future pronouncements that IVSC should make in relation to this class of asset. This discussion paper sets out a number of issues identified by the Board on which respondent's views are invited.

This discussion paper seeks to establish whether TRP represents a distinct asset class that presents unique valuation challenges, whether there are procedures that differ from those in the existing IVSs that should be regarded as mandatory and whether guidance is required on the application of different valuation approaches to TRP.

Ethics

4. Invitation to Comment on IFAC's IESBA ED on Responding to a Suspected Illegal Act

The Institute has issued an [Invitation to Comment](#) on IFAC's International Ethics Standards Board for Accountants ("IESBA") Exposure Draft ("ED") on Responding to a Suspected Illegal Act, with comments requested by **31 October 2012**.

The Explanatory Memorandum to the ED provides background on, and explanation of, the proposed changes to address the circumstances where a professional accountant in public practice or business shall, or has a right to, override the fundamental principle of confidentiality and disclose a suspected illegal act to an appropriate external authority.

The ED proposes adding two new sections addressing illegal acts to the *Code of Ethics for Professional Accountants* ("Code") – one each for professional accountants in public practice and professional accountants in business – and several revisions to other related sections. The proposed new sections delineate the expected course of action for a professional accountant to take if those charged with governance do not respond to the issue appropriately.

The IESBA proposes that the effective date for the changes be one year after approval of the final standard. Subject to comments received on the proposed changes, the IESBA intends to finalize the revisions to the Code in the second half of 2013.

International Meetings

5. International Accounting Standards Board

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

6. IFRS Interpretations Committee

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

7. International Auditing and Assurance Standards Board

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

8. International Ethics Standards Board for Accountants

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

Useful Resources

9. Publications

The following are recent publications on various topics:

- (i) Current and future challenges on financial reporting:
 - [Survey](#) by Ernst & Young
- (ii) Contingent consideration in a business combination:
 - [Practical guide](#) by PwC
- (iii) Annual improvements 2009-2011 Cycle:
 - [Update](#) by BDO
- (iv) Transition guidance amendments for HKFRS 10, HKFRS 11 and HKFRS 12:
 - [Update](#) by KPMG
 - [Update](#) by Deloitte
 - [News](#) by PwC

Comment Due Dates

14 September 2012: IVSC Discussion Paper *Valuation in the Extractive Industries*

17 September 2012: IVSC Discussion Paper *The Valuation of Trade Related Property*

21 September 2012: IFRS Foundation Constitution – Drafting Review: Separating the Role of the IASB Chair and the Executive Director

28 September 2012: IASB Request for Information on *Comprehensive Review of the IFRS for SMEs*

28 September 2012: IFAC's IESBA ED on Proposed Change to the Definition of "Those Charged with Governance"

12 October 2012: IASB Request for Information on *Post-Implementation Review: IFRS 8 Operating Segments*

31 October 2012: IFAC's IESBA ED on Responding to a Suspected Illegal Act

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

10. Draft Outline of the Integrated Reporting Framework Released by IIRC

The International Integrated Reporting Council ("IIRC") has released a [draft outline of the integrated reporting framework](#). The outline establishes for the first time the basic structure of the framework and is intended to keep stakeholders informed as the framework is developed.

Corporate Finance

11. Consultation on Trading Halts Proposal

Hong Kong Exchanges and Clearing ("HKEx") has [released a consultation paper](#) on proposal to implement short trading halts that would allow listed companies to publish announcements with price sensitive information on the HKExnews website during the Stock Exchange's trading hours, to enable investors to digest the contents of the announcement. Major features of the proposed model are set out in Chapter 4 of the consultation paper. The deadline for responses is **8 October 2012**.

12. Consultation Conclusions on Environmental, Social and Governance Reporting Guide

HKEx published [consultation conclusions](#) on environmental, social and governance reporting guide on 31 August. The guide is divided into four areas: workplace quality, environmental protection, operating practices and community involvement. Each of the areas is divided into three sections – aspects, general disclosure recommendations and key performance indicators.

Given that respondents welcomed the proposed introduction of the guide, HKEx has decided to

implement the guide, with amendments based on respondents' comments. The guide will be a recommended practice appended to the listing rules. It will apply to listed companies with financial years end after 31 December 2012.

Subject to further consultation, HKEx plans to raise the obligation level of some recommended disclosures in the guide to "comply or explain" by 2015.

The [Frequently Asked Questions](#) at the HKEx website set out useful resources.

Restructuring and Insolvency

13. ORO Panel A Scheme Rules Updated

The Official Receiver's Office ("ORO") published a set of [new Panel A Scheme Rules](#) on 23 August.

The "Panel A" scheme was set up by the ORO in 1996, with support from the Institute, to outsource non-summary winding-up cases with estimated realizable assets exceeding HK\$200,000.

Since the Panel A scheme was established, the opportunities for practitioners to gain experience in the insolvency field have increased significantly. Also, a tender scheme for small insolvency cases with estimated realizable assets not likely to exceed \$200,000 has been introduced. In the light of these developments, a review of the Panel A scheme rules was conducted and changes to the rules have been made. The changes include strengthening the requirements for applying to join the Panel A scheme by stipulating a higher level of experience and resources than those under the tender scheme for small insolvency cases.

The ORO invited feedback from the Institute's Restructuring and Insolvency Faculty Executive Committee ("RIFEC") on the draft revisions to the rules. The revised rules have taken on board many of the comments made by the RIFEC.

14. Protection of Wages on Insolvency Fund (PWIF) – Expansion of Scope

With the **Protection of Wages on Insolvency (Amendment) Ordinance 2012** which came into effect on 29 June, the protection of PWIF has been broadened to cover pay for untaken annual leave and untaken statutory holidays for employment contracts terminated on or after 29 June 2012. The following new pamphlets have been published to enhance public awareness of the extended coverage of the PWIF:

- **Guide to the Protection of Wages on Insolvency Ordinance and Points to note for making application to the Protection of Wages on Insolvency Fund**
- **A Concise Guide to the Protection of Wages on Insolvency (Amendment) Ordinance 2012**

Taxation

15. Advance Ruling on the Taxability of Interest Income

The Inland Revenue Department ("IRD") has published an **advance ruling** relating to Sections 14 and 15(1)(f) of the Inland Revenue Ordinance.

The taxpayer in the case was incorporated in Hong Kong and is a member of a group with overseas headquarters. Pursuant to the group's arrangement, the taxpayer will place its surplus funds with its overseas fellow subsidiary. The funds will be remitted by direct wire transfer from the taxpayer's bank account in Hong Kong to the subsidiary's overseas bank account. Thereafter, interest income will be derived by the taxpayer. The IRD ruled that the interest income is not taxable as the above sections are not satisfied.

Legislation & Other Initiatives

16. Companies Registry Update

- (i) Electronic submission of annual returns and annual return e-reminder service

The Companies Registry ("CR") has issued **Companies Registry External Circular No. 6/2012** to announce the launch of a new electronic service for submission of annual returns and the annual return e-reminder service at the **e-Registry portal** with effect from 20 August.

In this connection, the CR website has been updated, as follows:

- **Electronic Services at the e-Registry** section
 - Demo on **Annual Return and e-Reminder**
 - Frequently Asked Questions on **Annual Return e-Reminder Service**
 - Information Pamphlet on **Annual Return e-Reminder Service @ e-Registry**
- **Compliance** section
 - **Annual Return e-Reminder**
- Frequently Asked Questions section
 - **Annual Return e-Reminder**
 - **Electronic Submission of Commonly Filed Forms**
 - Local Limited Companies → **Filing of Annual Returns** – Questions 4 and 12
 - **Compliance** – Question 8
- Publications and Press Releases → **Information Pamphlets** section
 - **Annual Return e-Reminder Service @ e-Registry**
 - **Filing Requirements of a Local Limited Company after Incorporation**

- [Filing of Annual Return by a Local Limited Company](#)
- [A Company's Obligations after Registration](#)
- [Obligations after Company and Business Registration](#)

(ii) Electronic Services Marketing Conference

The CR has organized a marketing conference with four identical sessions on 6 and 12 September 2012 to provide a fuller understanding of the CR's electronic services and its latest initiatives. The conference is free of charge and will be conducted in Cantonese. For details, refer to the [invitation letter](#) and the [enrolment form](#).

Useful Resources

17. 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.

18. Other Publications

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

(i) HKEx has published:

- listing decisions in relation to
 - whether HKEx would consider the Republic of Korea (South Korea) an acceptable jurisdiction of an issuer's incorporation ([HKEx-LD36-2012](#))
 - whether, if in the conduct of its business in the PRC, a listing applicant was a party to a number of contract-based structures between or among itself, its PRC subsidiaries, the registered owners

(i.e., PRC nationals and controlling shareholder of the listing applicant) and companies owned by registered owners, this would render the listing applicant unsuitable for listing due to legal issues associated with the contractual arrangements ([HKEx-LD43-3](#)) (updated in Nov 2011 and Aug 2012)

- guidance letters in relation to
 - general principles for listing of business trusts and stapled securities ([HKEx-GL40-12](#))
 - disclosure requirements for IPO cases – disclosure of material changes in financial, operational and/or trading position after trading record period ([HKEx-GL41-12](#))
 - Main Board rule 9.09(b) in new listing cases ([HKEx-GL42-12](#))
- revised guidance in relation to
 - IPO-filing administrative practices – information in the first draft listing document – acceptance for vetting – extension of acceptance for vetting practices to GEM cases and other revisions ([HKEx-GL6-09](#)) (updated in Sep 2009, Nov 2011 and Aug 2012)
 - typhoon and rainstorm warning arrangements – Arrangements on the day of publication of prospectus ([HKEx-GL31-12](#)) (updated in Aug 2012)
- **report** on IPO applications, delisting and suspensions (as at 31 August)

(ii) The SFC has published:

- **Quarterly Report** which summarizes SFC's key regulatory developments in April - June 2012

(iii) Nederlandse Beroepsorganisatie van Accountants has published:

- A brochure entitled **Corporate Social Responsibility: CSR for SME Accountants**.

(iv) Articles on corporate governance by Deloitte:

- **SEC releases final compensation committee independence rulings**
- **Audit committee brief: harnessing the full potential of internal audit**
- **Update on the project to enhance COSO's internal control – integrated framework** (See also Techwatch no. 115)
- **Global economic outlook (3rd quarter 2012) – the summer lull**
- **Asia Pacific economic outlook – China, Japan, Malaysia and Taiwan**