



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



TechWatch

News at a glance

Issue 136 • February 2014

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

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Financial Reporting, Auditing and Ethics

New!

1. New Technical Learning and Support Programme from February to April 2014

The Institute will run a series of technical update evenings ("TUE"), workshops and seminars for accounting, auditing and ethics from February to April 2014 as follows:

- **TUE – HKFRS/IFRS 9: New Hedge Accounting Model**
- **TUE – New Companies Ordinance on Financial reporting issues**
- **Seminar on basic principles and insights on fair value measurements**
- **Workshop on Quality Control**
- **Financial Reporting Seminar on Application of HKFRS 13 Fair Value Measurement**
- **ICAC Workshop on Ethical Decision Making**
- **Workshops on a successful listing in Hong Kong**

To secure seats, please register early by completing the registration forms by clicking on the above event titles.

Click [here](#) for an indicative list of topics to be included in the technical learning and support programme from July 2013 to June 2014.

Members' Handbook

2. Handbook Updates No. 136 & 137

- (i) **Update No. 136** contains *Annual Improvements to HKFRSs 2010-2012 Cycle* and *Annual Improvements to HKFRSs 2011-2013 Cycle*.

Annual Improvements to HKFRSs 2010-2012 Cycle and *Annual Improvements to HKFRSs 2011-2013 Cycle* set out a collection of amendments to HKFRS (in response to the IASB's annual improvements project) to make necessary, but non-urgent, amendments to HKFRS that will not be included as part of any other project. The amendments are in the form of a single document rather than as a series of piecemeal changes. The Institute will incorporate the amendments in the relevant affected standards at a later stage.

- (ii) **Update No. 137** contains amendments to the Institute's Corporate Practices (Registration) Rules ("CPR Rules") and its schedule.

The Professional Accountants (Amendment) Ordinance 2013 which allows a sole practising member of the Institute to register a corporate practice with only one shareholder/director took effect on 24 January 2014. Consequential amendments to the Institute's CPR Rules and its schedule, the Model Memorandum and Articles of Association ("Model M&A") have been made, and the revised CPR Rules and Model M&A took effect from the same date, i.e. on 24 January 2014.

A sole practising member corporate practice registered on or after 24 January 2014 cannot appoint a non-member or non-practising member of the Institute as a nominee shareholder/director (i.e. a "B" shareholder/director) under section 28D(2)(c) of the Professional Accountants Ordinance ("PAO") and the CPR Rules (January 2014).

There is a one-year transitional period for existing sole practising member corporate practices registered before 24 January 2014 to comply with the new PAO requirement and the CPR Rules (January 2014). Accordingly, the CPR Rules (September 2004) and its schedule, the Model M&A (September 2004) will continue to apply to existing sole practising member corporate practices until 23 January 2015.

Audit & Assurance

3. Invitation to Comment on Exposure Draft

The Institute has issued an **Invitation to Comment** on Exposure Draft ("ED") on HKSIR 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness*, with comments requested by **20 March 2014**.

The purpose of proposed HKSIR 500 is to establish standards and provide guidance for reporting accountants when providing letters on the following information included in an investment circular:

- profit forecast
- statement of sufficiency of working capital
- statement of indebtedness

This is to update extant guidance with the current assurance and related services pronouncements as well as the new sponsors' regime.

The proposed HKSIR 500 will supersede extant AG 3.341 *Accountants' Report on Profit Forecast* and the respective guidance on sufficiency of working capital and indebtedness statement in extant AG 3.340 *Prospectuses and the reporting accountants*.

International Meetings

4. International Accounting Standards Board

The IASB met on 21-23 January 2014, and discussed the following topics:

- The use of information by capital providers
- Agriculture: Bearer plants
- Financial Instruments: Classification and Measurement (Limited amendments)
- Insurance Contracts

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Elimination of gains from "downstream" transactions (Proposed amendments to IAS 28)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Amendments to IAS 1
- Financial Instruments: Impairment
- Leases

Click to view the IASB Update on the meeting of **21-23 January**. The IASB next meets in February 2014.

5. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 29-30 January 2014, and discussed issues related to the following standards:

- IAS 1 *Presentation of Financial Statements*
- IAS 12 *Income Taxes*
- IAS 16 *Property, Plant and Equipment*
- IAS 19 *Employee Benefits*
- IAS 28 *Investments in Associates and Joint Ventures*
- IAS 29 *Financial Reporting in Hyperinflationary Economies*
- IAS 32 *Financial Instruments: Presentation*
- IAS 34 *Interim Financial Reporting*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- IFRS 3 *Business Combinations*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*

Click to view the IFRIC Update on the meeting of **29-30 January**. The IFRS Interpretations Committee next meets in March 2014.

6. IFRS Accounting Standards Advisory Forum

The IFRS ASAF next meets in March 2014. Click [here](#) for details and previous meeting summary.

7. International Auditing and Assurance Standards Board

The IAASB next meets in February 2014. Click [here](#) for details and previous meeting summary.

8. International Ethics Standards Board for Accountants

The IESBA next meets in April 2014. Click [here](#) for details and previous meeting summary.

Useful Resources

9. Publications

- (i) [KPMG](#) and [PwC](#) on illustrative HKFRS financial statements
- (ii) [BDO](#) and [Zhonghui Anda](#) updates on new and revised standards applicable for 2013 year end
- (iii) [BDO](#), [KPMG](#) and [PwC](#) updates on hedge accounting
- (iv) Deloitte [Update](#) discussing whether acquisition of investment properties in a company is an asset acquisition or a business combination
- (v) PwC [Update](#) on latest developments on IFRS
- (vi) PwC [disclosure checklist](#)

Comment Due Dates

14 February 2014: IASB ED of *Annual Improvements to IFRSs 2012-2014 Cycle*

4 March 2014: IAASB Consultation Paper on Proposed Strategy for 2015-2019 and Work Program for 2015-2016

20 March 2014: ED on HKSIR 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness*

Specialist Practices, Business Members and Advocacy

Corporate Finance

10. SFC Consults on Amendments to the Code on Real Estate Investment Trusts

The Securities and Futures Commission ("SFC") has **launched a consultation** on proposed amendments to the Code on Real Estate Investment Trusts ("REITs"), with comments requested by **26 February 2014**.

The principal proposals are to introduce flexibility for REITs to invest in:

- properties under development or engage in property development activities; and
- financial instruments, including listed securities, unlisted debt securities, government and other public securities, and local or overseas property funds.

Certain other issues are touched upon, such as the suggestion that REITs be given profits tax concessions.

As reported in **TechWatch no. 134** (item 20), the Financial Services Development Council ("FSDC") has produced a series of **research papers** on strengthening Hong Kong's role as a financial services centre. One of those papers, entitled **Developing Hong Kong as a Capital Formation Centre for Real Estate Investment Trusts**, is about further development of the REIT market and the SFC consultation has made reference to it.

The Institute's Corporate Finance Committee and Professional Accountants in Business Leadership Panel are considering the consultation paper. If you wish to submit views via the Institute, please send your comments to commentletters@hkicpa.org.hk by 18 February.

11. SFC's Review of the Statutory Regime on Inside Information Disclosure

Following the implementation of the statutory disclosure regime on 1 January 2013, a review by the SFC **showed** that in 2013, corporate announcements about inside information increased by 52% and profit alerts and warnings went up 16% from 2012. Other than inside information, more announcements (an increase of 48%) provided regular updates on companies' trading performance, such as monthly sales figures, production volumes and other key performance indicators.

The SFC has posted two additional **Frequently Asked Questions** ("FAQs") on its website, which advise companies to disclose relevant directors' dealings when making an unusual price and trading volume announcement under the Stock Exchange Listing Rules, and to address issues concerning disclosure obligations in relation to a statutory enquiry or investigation.

Restructuring and Insolvency

12. ORO Tender Notice

The Official Receiver's Office ("ORO") invites insolvency practitioners to submit tenders for taking up appointments as provisional liquidator under section 194(1A) of the Companies Ordinance (Tender Ref: OR/T/2014). The contract period will last for two years, ending on 31 March 2016. The documents state the deadline for submission to be 19 February 2014, at 12:00 noon. Parties interested in tendering should refer to the relevant documents for the tendering process and requirements.

The tender forms and relevant documents are obtainable from the ORO or on the **ORO's website**.

13. Consultation on Establishing an Effective Resolution Regime for Financial Institutions

The Financial Services and the Treasury Bureau, together with the Hong Kong Monetary Authority ("HKMA"), the SFC and the Insurance

Authority ("IA"), **issued** the first-stage **consultation paper** on "An Effective Resolution Regime for Financial Institutions in Hong Kong" on 7 January, with comments requested by **6 April 2014**.

The paper contains initial thinking and proposals on how a resolution regime might be established, which provides the authorities in Hong Kong with powers to bring about the orderly resolution of financial institutions ("FIs") which could pose systemic risk if they were to become non-viable and, in so doing, complies with the **Financial Stability Board (FSB)'s Key Attributes of Effective Resolution Regimes for Financial Institutions** ("Key Attributes") published in November 2011.

The paper identifies a number of gaps in the existing supervisory intervention powers or toolkits of the local regulators when compared to the Key Attributes. To address these gaps and provide the basis for a robust resolution regime for Hong Kong, the paper proposes a single cross-sectoral regime and makes the case for each of the sectoral regulators (HKMA, SFC and IA) to be designated as the resolution authorities for FIs within their purview. The paper considers which FIs should fall within the scope of the regime (taking into account which FIs could pose a systemic risk upon failure) as well as the conditions under which the regime will be used and the objectives to be advanced in any resolution.

The powers it is proposed should be made available to the resolution authorities to stabilize and resolve an FI are those identified in the Key Attributes (namely, transfer of the FI or some or all of its business to another FI or to a bridge institution and "bail-in" of liabilities to recapitalize the FI). The paper also discusses whether a "temporary public ownership" option should be made available.

The final two chapters of the paper consider the safeguards that should be available to parties affected by resolution and how the resolution regime might operate in a cross-border context.

The regulators aim to conduct the second-stage consultation later this year on the more specific details and operation of the resolution regime. Subject to the outcome of the consultations, legislative proposals are planned to be introduced into the Legislative Council in 2015.

The Institute's Restructuring and Insolvency Faculty Executive Committee is studying the consultation paper. If you wish to submit views via the Institute, please send your comments to [<commentletters@hkicpa.org.hk>](mailto:commentletters@hkicpa.org.hk) by 21 March.

Taxation

14. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- **Revised DIPN 47** which sets out the current practice on exchange of information upon requests received from treaty partners
- **Hong Kong second protocol to double tax agreement with Vietnam** has been signed
- **Administration's response** to a proposed committee stage amendment ("CSA") to the Stamp Duty (Amendment) Bill 2012 by the Hon. Regina Ip. The CSA seeks to remove the buyer's stamp duty exemption for purchases on behalf of minors who are Hong Kong permanent residents by their trustees or guardians
- **Employers and taxpayers** to notify the Inland Revenue Department of any change of postal address for the coming issuance of returns
- **New specifications of software** developed by employers for submission of annual employer's return of remuneration and pensions (IR56B) and notification of remunerations paid to persons other than employees (IR56M) in computerized format
- **A list of qualifying debt instruments** as at 31 December 2013

Legislation & Other Initiatives

15. Companies Registry Update

(i) Annual statistics for 2013

The Companies Registry ("CR") released annual statistics for 2013 on 12 January 2014. Refer to the relevant [press release](#) and the [statistics section](#) of the CR website for details.

(ii) New specified forms

The 92 forms newly specified by the Registrar of Companies, and the revised Samples of Articles of Association, for use after the commencement of the new Companies Ordinance (Cap 622) on 3 March 2014, have been posted onto the [New Companies Ordinance section](#) of the CR's website. A CD-ROM containing a full set of the new forms and hard copies of individual forms are also available for purchase at the information counter on the 14th floor of the Queensway Government Offices, 66 Queensway, Hong Kong.

(iii) New guidelines

The CR has issued the following two guidance notes, which will be effective upon the commencement of the new Companies Ordinance:

- [Guidance notes on application for a licence to dispense with the word "Limited" in the name of a company](#)
- [Guidance notes on application for administrative restoration](#)

(iv) New external circulars

The CR has issued the following five external circulars to prepare for the commencement of the new Companies Ordinance:

- No. 5/2014: [Subsidiary Legislation](#)
- No. 6/2014: [Changes in the Regime of Registration of Charges](#)

- No. 7/2014: [Rectification of Information on the Companies Register](#)
- No. 8/2014: [Requirements for Documents Delivered for Registration](#)
- No. 9/2014: [Introduction of Electronic Templates of Newly Specified Forms at the e-Registry](#)

16. Anti-Money Laundering

Members may wish to note the following notices and publications in relation to combating money laundering/terrorist financing ("AML"):

- [Government notice 7682](#): An updated list of terrorists and terrorist associates specified under the United Nations (anti-terrorism measures) Ordinance.
- [Government notice 7683](#): An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- [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, see the Institute's [Anti-money Laundering Bulletin 1](#), "Requirements on anti-money laundering, anti-terrorist financing and related matters", and the [supplement](#) on suspicious transaction reporting.

Useful Resources

17. Library Resources

[Featured titles](#) and [new books](#) of reference value to 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

(i) HKEx has published:

➤ Listing decisions regarding:

- whether a listing applicant's level of internal controls on its hedging activities was appropriate for a listed company ([HKEx-LD77-2014](#))
- whether the guarantee provided by a listed issuer for a loan facility granted to a non-wholly owned subsidiary of its 30%-owned associated company was subject to the connected transaction requirements ([HKEx-LD78-2014](#))
- whether the amendments to the non-competition undertaking given by the controlling shareholder to a listed company would require independent shareholders' approval ([HKEX-LD79-2014](#))
- whether a listed issuer's proposed guarantee for a bank loan to be granted to a joint venture should be aggregated with its initial capital contribution to the joint venture ([HKEx-LD80-2014](#))
- whether the requirements relating to the inclusion of a statement of sufficient working capital in a listed issuer's listing document for a rights issue would be waived ([HKEx-LD81-2014](#))
- whether HKEx would allow a listed issuer, which is dually listed in HK and an overseas stock exchange, to proceed with a share repurchase offer that might result in a lack of open market in its shares, and whether HKEx would give consent to the company for issuing new shares within 30 days after completion of the offer under Rule 10.06(3) to meet the public float requirement ([HKEx-LD82-2014](#))

- for a listed issuer's proposed rights issue of shares with bonus warrants, whether the requirements on the minimum number and spread of warrant-holders at the time of listing of the warrants would be waived ([HKEx-LD83-2014](#))

➤ New guidance letters in relation to:

- connected transaction rules ([HKEx-GL70-14](#))
- gambling activities undertaken by listing applicants and/or listed issuers ([HKEx-GL71-14](#))
- the "Applicable Laws and Regulations" section for Initial Public Offering ("IPO") cases ([HKEx-GL72-14](#))

➤ Updated guidance letters in relation to:

- accounting and disclosure requirements for acquisitions of subsidiaries and businesses conducted during or after the trading record period and stub period comparative ([HKEx-GL32-12](#))
- disclosure of directors, supervisors and senior management section in listing documents ([HKEx-GL62-13](#))
- financial information for the trading record period expected in the first draft listing document for listing applications ([HKEx-GL6-09A](#))
- disclosure of material changes in financial, operational and/or trading position after trading record period for IPO cases ([HKEx-GL41-12](#))
- indebtedness, liquidity, financial resources and capital structure disclosure in listing documents and sponsor's confirmation on working

- capital sufficiency statement
([HKEx-GL37-12](#))
 - the “Summary and Highlights”
section for IPO cases ([HKEX-
GL27-12](#))
 - the “Industry Overview” section for
IPO cases ([HKEx-GL48-13](#))
 - An updated **Frequently Asked
Question Series 23** – disclosure of a
new applicant’s unaudited net profits/
losses after its track record period in a
listing document
 - **HKEx Securities and Derivatives
Markets Quarterly Report – 4th
quarter 2013**
 - **Market statistics for 2013**
 - **Report** on IPO applications, delisting
and suspensions (as at 30 January)
- (ii) SFC has published:
- **Research Paper 54: A review of the
global and local securities markets in
2013**
 - Speech by Carlson Tong, SFC chairman,
on **Five years on – Lessons,
challenges and opportunities**
- (iii) Articles on corporate governance by
Deloitte:
- **Directors' alert 2014 – greater
oversight, deeper insight: boardroom
strategies in an era of disruptive
change**
 - **Dynamic strategy implementation:
delivering on your strategic ambition**
 - **Top issues for audit committees in
2014**
- **The value killers revisited – a risk
management study**
 - **Asia Pacific economic outlook –
Australia, China, Indonesia, and
Japan**