



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

TechWatch

News at a glance



Issue 139 • May 2014

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

Contents

Financial Reporting, Auditing and Ethics

New!

1. [New Technical Learning and Support Programme from May to June 2014](#)

Members' Handbook

2. [Handbook Updates No. 144 - 146](#)

Financial Reporting

3. [HKICPA Financial Reporting Standards Committee](#)
4. [Invitation to Comment on Consultation Paper](#)
5. [Institute Comments on Consultation Papers](#)

Audit & Assurance

6. [HKICPA Auditing and Assurance Standards Committee](#)
7. [Invitations to Comment on Consultation Papers](#)
8. [Institute Comments on Consultation Paper](#)

International Meetings

9. [IASB](#)
10. [IFRS Interpretations Committee](#)
11. [IFRS ASAF](#)
12. [IAASB](#)
13. [IESBA](#)

Useful Resources

14. [Publications](#)

Comment Due Dates

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

15. [IFAC Launches Global Knowledge Gateway](#)

Corporate Finance

16. [Pilot Shanghai-Hong Kong Stock Connect Programme](#)
17. [Consultation on Open-ended Fund Companies](#)

Restructuring and Insolvency

18. [Institute Summits Views on Establishing an Effective Resolution Regime for Financial Institutions](#)

Taxation

19. [Announcements by the Inland Revenue Department](#)

Legislation & Other Initiatives

20. [Land Registry New Circulars](#)
21. [Companies Registry Update](#)
22. [Anti-Money Laundering](#)

Useful Resources

23. [Library Resources](#)
24. [Other Publications](#)

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

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

TechWatch is prepared by the Hong Kong Institute of CPAs and is intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Institute endeavours to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted by the Institute. This publication contains certain links to resources located on servers, or websites, maintained by third parties, over whom we have no control. Accordingly, the Institute accepts no responsibility or liability for any of the material contained on those servers or the accuracy or legality of information contained on other websites.

Financial Reporting, Auditing and Ethics

New!

1. New Technical Learning and Support Programme from May to June 2014

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

- **TUE – Common questions by SMPs when applying Code of Ethics for Professional Accountants**
- **TUE – Getting Practical with Internal Control**
- **TUE – Revised Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard ("SME-FRF & SME-FRS (Revised)")**
- **Workshops on a successful listing in Hong Kong**
- **Workshops for Group Accounting**
- **Workshop on Quality Control**
- **HKFRS for Private Entities Workshops**
- **A Refresher Course on Current Financial Reporting Standards**

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. 144 - 146

- (i) **Update No. 144** contains updated *Statement 1.103 Corporate Practices*

(Professional Indemnity) Rules because the new Companies Ordinance (Cap. 622) ("new CO") has commenced operation on 3 March 2014.

- (ii) **Update No. 145** contains amendment to SME-FRF & SME-FRS (Revised) clarifying non-exempt disclosure requirements of the new CO for qualifying entities.
- (iii) **Update No. 146** contains HKSIR 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* and respective amendments to AG 3.340 *Prospectuses and the reporting accountant* and AG 3.341 *Accountants' report on profit forecasts*.

The purpose of new 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.

Financial Reporting

3. HKICPA Financial Reporting Standards Committee

The **FRSC minutes** of the meeting held on 21 February 2014 covered the following items:

- IASB Leases Project
- Issuance of HKFRS 14 *Regulatory Deferral Accounts*
- Accounting for transaction costs incurred in an IPO

- Update on technical developments in financial reporting

4. Invitation to Comment on Consultation Paper

IASB Discussion Paper ("DP") of *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*

The Institute has issued an **Invitation to Comment** on IASB DP of *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*, with comments requested by **15 September 2014**.

As stated in the IASB's press release, accompanying the DP, as part of its comprehensive response to the global financial crisis, the IASB is replacing IAS 39 *Financial Instruments: Recognition and Measurement* with an entirely new financial instruments accounting standard, known as IFRS 9 *Financial Instruments*. That project is in the final stages of completion. However, the IASB decided to treat as a separate project the macro hedging component of these reforms in order to elicit views from a broader range of constituents.

The DP explores the use of a portfolio revaluation approach, which represents the first stage in this project on a possible approach to accounting for an entity's dynamic risk management activities.

5. Institute Comments on Consultation Papers

- (i) IASB discussion on proposed amendments to paragraph 4(a)(iv) of IFRS 10: Request to broaden the discussion beyond the impact of the investment entities amendment and to consider deleting this condition

The Institute sent a **comment letter** to IASB regarding the discussion on its proposed amendments to paragraph 4(a)(iv) of IFRS 10 *Consolidated Financial Statements* and to request IASB to broaden their consideration of this issue to consider whether this paragraph should be deleted, on the basis that it was inconsistent with the

purpose of general purpose financial statements as set out in the Conceptual Framework.

- (ii) IASB Exposure Draft ("ED") *Annual Improvements to IFRSs 2012-2014 Cycle*

The Institute sent a **comment letter** to IASB on its ED of *Annual Improvements to IFRSs 2012 -2014 Cycle* and generally agreed with most of the proposals in the ED and with the objectives they were trying to achieve, however, the Institute expressed concerns about the proposed amendments to IAS 19 *Employee Benefits* (on the regional market issue) and IAS 34 *Interim Financial Reporting* (on information "elsewhere in the interim financial report").

Audit & Assurance

6. HKICPA Auditing and Assurance Standards Committee

The **AASC minutes** of the meeting held on 11 March 2014 covered the following items:

- A Framework for Audit Quality issued by the IAASB
- IAASB's Consultation Paper on *Proposed Strategy for 2015-2019 and Proposed Work Programme for 2015-2016*
- Transition arrangement for reporting under Part 8 of the Third Schedule in the Insurance Companies Ordinance
- FRSC ED on Accounting Bulletin 5 *Guidance for the Preparation of a Business Review under the Hong Kong Companies Ordinance Cap. 622*

7. Invitations to Comment on Consultation Papers

- (i) ED Practice Note ("PN") 600.1 (Revised) *Reports by the Auditor under the Hong Kong Companies Ordinance (Cap. 622)*

The Institute has issued an **Invitation to Comment** on ED PN 600.1 (Revised)

Reports by the Auditor under the Hong Kong Companies Ordinance (Cap. 622), with comments requested by 28 May 2014.

The AASC has embarked on a project to update the relevant auditing and assurance pronouncements for the new CO. As part of the project, the proposed PN 600.1 (Revised) has been updated to align with the requirements of the new CO.

- (ii) IAASB ED Proposed ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* and Proposed Consequential and Conforming Amendments to Other ISAs

The Institute has issued an [Invitation to Comment](#) on IAASB ED Proposed ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* and Proposed Consequential and Conforming Amendments to Other ISAs, with comments requested by **18 June 2014**.

The proposed ISA 720 (Revised) clarifies and strengthens the scope and focus of auditor efforts on information included in entities' annual reports, other than the audited financial statements, and introduces new auditor reporting responsibilities.

8. Institute Comments on Consultation Paper

The Institute sent a [comment letter](#) to IAASB on its Consultation Paper of Proposed Strategy for 2015-2019 and Proposed Work Program for 2015-2016. Overall the Institute supported the proposed Strategy and Work Program and believed the proposed Strategy and Work Program will also help to underpin audit quality.

In particular, the Institute considered the strategic objectives for 2015-2019 identified by the IAASB appropriate and supported IAASB's decision to devote a significant majority of its resources to progress certain ISA and ISQC related topics that address significant public interest issues.

International Meetings

9. International Accounting Standards Board

The IASB met on 22-25 April 2014, and discussed the following topics:

- The Research Programme – update
- Leases
- Agriculture: Bearer Plants
- Narrow-scope amendments – IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*
- Rate-regulated Activities
- Equity Method in Separate Financial Statements
- Conceptual Framework
- Insurance Contracts
- Disclosure Initiative
- IFRS IC Issues
- Narrow-scope amendments – IFRS 2 *Share-based Payment*

Click to view the IASB Update on the meeting of [22-25 April 2014](#). The IASB next meets in May 2014.

10. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in May 2014. Click [here](#) for details.

11. IFRS Accounting Standards Advisory Forum

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

12. International Auditing and Assurance Standards Board

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

13. International Ethics Standards Board for Accountants

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

Useful Resources

14. Publications

- (i) The Institute's [Quality assurance report 2013](#)
- (ii) Upcoming changes in IFRS by [PwC](#) and [EY](#)
- (iii) PwC [Update](#) on the latest developments on IFRS
- (iv) EY [Illustrative interim financial statements](#) and [Disclosure checklist](#) for the period ended 30 June 2014
- (v) EY [Pocketbook guide](#) on key features of the IASB's active projects
- (vi) Zhonghui Anda updates on [new Companies Ordinance](#) and [SME-FRF & SME-FRS \(Revised\)](#)

Comment Due Dates

28 May 2014: ED PN 600.1 (Revised) *Reports by the Auditor under the Hong Kong Companies Ordinance (Cap. 622)*

18 June 2014: IAASB ED Proposed ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* and Proposed Consequential and Conforming Amendments to Other ISAs

30 June 2014: IASB ED of *Disclosure Initiative (Proposed amendments to IAS 1)*

15 September 2014: IASB DP of *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

15. IFAC Launches Global Knowledge Gateway

The [Global Knowledge Gateway](#) is a platform to bring together news, views and resources, for the worldwide accountancy profession. It showcases key accountancy materials and provides a forum to explore thought-provoking issues, participate in discussions, and be part of the global community of accountants that the International Federation of Accountants ("IFAC") represents.

Corporate Finance

16. Pilot Shanghai-Hong Kong Stock Connect Programme

The China Securities Regulatory Commission ("CSRC") and the Securities and Future Commission ("SFC") have approved, in principle, the development of a pilot programme (Shanghai-Hong Kong Stock Connect) for establishing mutual stock market access between Mainland China and Hong Kong. The pilot programme will operate between the Shanghai Stock Exchange, the Stock Exchange of Hong Kong Limited ("HKEx"), China Securities Depository and Clearing Corporation Limited and Hong Kong Securities Clearing Company Limited.

Read the [joint CSRC and SFC announcement](#), which describes the principles under which it is expected that the Shanghai-Hong Kong Stock Connect will operate. Further announcements will be made as development work progresses.

Refer to the [HKEx Shanghai-Hong Kong Stock Connect webpage](#) for further information, including information booklets and frequently asked questions ("FAQs") for investors and market practitioners, relevant

announcements and news releases, circulars, presentation materials, technical documents.

17. Consultation on Open-ended Fund Companies

The Financial Services and the Treasury Bureau ("FSTB") has launched a [consultation](#) on introducing a new open-ended fund company ("OFC") structure to expand Hong Kong's legal infrastructure for investment fund vehicles, with an aim to further develop Hong Kong as an international asset management centre of choice. The consultation seeks views on the policy and legal frameworks for OFC, with comments requested by **19 June 2014**.

Currently, an open-ended investment fund may be established under the laws of Hong Kong in the form of a unit trust, but not in corporate form due to various restrictions on capital reduction under the CO. To complement the existing unit trust structure, the new OFC will be an open-ended collective investment scheme, with a corporate structure, limited liability and variable share capital. This will serve as an investment fund vehicle via which investments will be managed for the benefit of its shareholders.

The new OFC vehicle will be established under the Securities and Futures Ordinance and be regulated and supervised by the SFC. The Companies Registry will be responsible for the incorporation and relevant statutory corporate filings, maintaining a register for OFCs and providing the public with services to access the OFC information that it holds.

The Institute's Corporate Finance 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 **31 May 2014**.

Restructuring and Insolvency

18. Institute Summits Views on Establishing an Effective Resolution Regime for Financial Institutions

As reported in [TechWatch no. 136](#) (item 13), the FSTB, the Hong Kong Monetary Authority

("HKMA"), SFC and the Insurance Authority ("IA"), [issued a consultation paper](#) on "An Effective Resolution Regime for Financial Institutions in Hong Kong" to seek views on initial proposals on how a resolution regime might be established in Hong Kong.

The Restructuring and Insolvency Faculty Executive Committee and its Technical sub-committee studied the paper and submitted preliminary views on the principles, proposed framework and regulatory structure for the resolution regime. Read the [submission](#) for more details.

In general, they are supportive of the proposals, including:

- The introduction of a resolution regime to bring Hong Kong into line with the standards set in the Key Attributes, as this will help preserve confidence in the market and reinforce Hong Kong's standing internationally.
- A broad scope for the regime, provided that the criteria for deploying the regime in any given circumstances be clearly and transparently defined.
- The proposed range of resolution options, provided that some general criteria be developed and made public as to which options or combinations of options would be used in what circumstances.
- A common framework for resolution through a single cross-sectoral regime, with some sector-specific provisions, with each of the existing regulators (HKMA, SFC, IA) being designated as the resolution authority responsible for the financial institutions ("FIs") subject to their regulatory authority.
- On the failure of a FI which operates across multiple sectors and is subject to regulation by more than one regulator, a lead resolution authority should be appointed to oversee and co-ordinate the resolution process, so as to avoid supervisory conflicts. The lead resolution authority should be invested with some

decision-making, not simply coordinating, power.

Taxation

19. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Legislative council questions on:
 - [The proposed new open-ended fund company structure](#)
 - [Revenues from the Special Stamp Duty and the Buyer's Stamp Duty \("BSD"\)](#)
 - [BSD of units acquired under the Tenants Purchase Scheme](#)
 - [Statutory declarations requirement for Hong Kong permanent residents seeking exemption from BSD](#)
 - [Statutory declarations for seeking exemptions from BSD](#)
- [FAQs 25 to 37](#) on the procedures for BSD exemption and statutory declaration. Appendices A and B of [Stamping Circular 03/2014](#) have also been updated.
- [New FAQ](#) on tax recovery notices.
- [Notice](#) on issuance of employer's return of remuneration and pensions.
- [Press release](#) about issuance of individual tax returns, developments on exchange of tax information, and revenue collection. Click also to see [the gist of CIR's speech](#) from the press conference, which was held on 2 May 2014.
- [Inland Revenue \(Amendment\) Bill 2014](#), to implement the concessionary revenue measures proposed in the 2014-15 Budget, has been gazetted.
- [Order on tax information exchange agreement with the US](#) has been gazetted.

- [Seminar on tax treaty between Hong Kong and Malaysia](#) held in Kuala Lumpur, at which the chair of the Taxation Faculty Executive Committee, Florence Chan represented the Institute.
- [Suspended jail sentence for taxpayer convicted of falsely claiming deduction of self-education expenses.](#)
- [List of qualifying debt instruments as at 31 March 2014.](#)

Legislation & Other Initiatives

20. Land Registry New Circulars

The Land Registry issued the following circular memorandums in April:

- [No.1/14](#) on launching a mobile version of the Integrated Registration Information System online services, aiming to facilitate customers using smartphones and mobile devices to conduct land searches more effectively.
- [No.2/14](#) in relation to the availability for sale of the latest editions of the Street Index and the New Territories Lot/ Address Cross Reference Table on compact disc and their corresponding licences.

21. Companies Registry Update

The Registrar of Companies has exercised the power under section 914(6)(b) of the CO (Cap. 622) and appointed 3 June 2014 to be the date on or after which old forms will no longer be accepted for registration by the Companies Registry. Refer to the [Gazette Notice](#) for more details.

22. Anti-Money Laundering

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

- [Government notice 1614](#): A list of relevant persons and entities has been specified under the United Nations Sanctions (Liberia) Regulation 2014.

- **Government notice 2241**: A list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2014.
- **Legal notice 51**: The United Nations Sanctions (Central African Republic) Regulation has been published in the Gazette.
- **Legal notice 52**: The United Nations Sanctions (Democratic Republic of the Congo) Regulation 2014 has been published in the Gazette.
- **Legal notice 53**: The United Nations Sanctions (Somalia) (Amendment) Regulation 2014 has been published in the Gazette.
- **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

23. Library Resources

Featured titles and **new books** for members’ reference 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

(i) HKEx has published:

- Guidance letters in relation to:

- situations where a lead broker or any distributors place shares of a listing applicant to their connected clients who, in turn, will hold such shares on behalf of independent third parties ([HKEx-GL75-14](#)). This supersedes the listing decision ([HKEx-LD54-3](#))
- opinion letters prepared by independent financial advisers under the Listing Rules ([HKEx-GL76-14](#)).
- Updated guidance letters in relation to:
 - simplification series – disclosure in listing documents for initial public offering (“IPO”) cases – the “Summary and Highlights” section ([HKEx-GL27-12](#))
 - disclosure of material non-compliance incidents in listing documents ([HKEx-GL63-13](#))
- An updated listing decision in relation to whether a listing applicant, which was a party to a number of contract-based structures between or among itself, its PRC subsidiaries, its controlled companies and the registered owners of its controlled companies, would render the listing applicant unsuitable for listing, due to legal questions associated with these arrangements ([HKEx-LD43-3](#))
- Revisions to all **country guides** in light of the retitling of “Companies Ordinance” to “Companies Ordinance (Cap. 622)” and “Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)” with effect from 3 March 2014
- **Revisions** to FAQs series 24 (item 23A added) – question relating to Listing Rule changes to complement new sponsor regulation
- **HKEx Securities and Derivatives Markets Quarterly Report - First Quarter 2014**

- **Training webcasts** on environmental, social and governance reporting
- **Report** on IPO applications, delisting and suspensions (as at 30 April)
- (ii) Articles on corporate governance by Deloitte:
 - **When "should" becomes "shall" – rethinking compliance management for banks**
 - **Changing the game on cyber risk – the imperative to be secure, vigilant, and resilient**
 - **Will risk rain on your move to the cloud? The role of internal audit in the digital enterprise**
- (iii) **2013 board of directors survey – the state of leadership succession planning today** by Heidrick & Struggles