



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 comments, emailed to < commentletters@hkicpa.org.hk >. Click [here](#) for past issues.

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Financial Reporting, Auditing and Ethics

New!

1. New Technical Learning and Support Programme in June 2014

The Institute will run workshops for accounting and auditing in June 2014 as follows:

- [Workshop on Deferred Taxes](#)
- [Workshop on Internal Control](#)

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

Members' Handbook

2. Handbook Updates No. 147 & 148

- (i) [Update No. 147](#) contains consequential amendments to HKFRS which were previously set out in the appendix to the Standards as they were not yet effective. The Institute has taken this opportunity to incorporate the amendments applicable on 1 January 2013 in the relevant affected HKFRS for greater clarity.
- (ii) [Update No. 148](#) contains amendments to HKFRS 11 *Joint Arrangements*, HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*.

HKAS 16 and HKAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarify that revenue is generally presumed to be an inappropriate

basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

HKFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

Audit & Assurance

3. Invitation to Comment on IAASB ED

The Institute has issued an [Invitation to Comment](#) on IAASB Exposure Draft ("ED") Proposed Changes to the International Standards on Auditing ("ISAs") Addressing Disclosures in the Audit of Financial Statements, with comments requested by **11 August 2014**.

The ED proposed changes to the ISAs to clarify expectations of auditors when auditing financial statement disclosures. The IAASB's work has been formed by the feedback to its January 2011 Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*.

The proposals include new guidance on considerations relevant to disclosures – from when the auditor plans the audit and assesses the risks of material misstatement, to when the auditor evaluates misstatements and forms an opinion on the financial statements.

Ethics

4. Invitation to Comment on IESBA ED

The Institute has issued an [Invitation to Comment](#) on IESBA ED on Proposed Changes to Certain Provisions of the Code Addressing

Non-assurance Services for Audit Clients, with comments requested by **25 July 2014**.

The IESBA aims to enhance the independence provisions in the Code of Ethics for Professional Accountants, through the proposed changes, by:

- Providing additional guidance and clarification regarding what constitutes management responsibility, including enhanced guidance regarding how the auditor can be better satisfied that client management will make all judgments and decisions that are the responsibility of management, when the auditor provides non-assurance services to an audit client;
- Providing better guidance and clarification on the concept of "routine or mechanical" services relating to the preparation of accounting records and financial statements for non-public interest entity audit clients; and
- Removing the provision that permits an audit firm to provide certain bookkeeping and taxation services to public interest entity audit clients in emergency situations.

The IESBA is also proposing enhancements to the corresponding non-assurance services provisions in Section 291 – Other Assurance Engagements with respect to assurance clients.

International Meetings

5. International Accounting Standards Board

The IASB met on 20-22 May 2014, and discussed the following topics:

- Insurance Contracts
- Agriculture: Bearer Plants
- Comprehensive review of the *IFRS for SMEs*
- Leases

- Equity Method of Accounting
- Equity Method: Share of Other Net Asset Changes
- Conceptual Framework
- Recognition of Deferred Tax Assets for Unrealized Losses (Proposed amendments to IAS 12)

Click to view the IASB Update on the meeting of **20-22 May 2014**. The IASB next meets in June 2014.

6. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 13-14 May 2014, and discussed issues related to the following standards:

- Items on the current agenda
- IAS 1 *Presentation of Financial Statements*
- IAS 12 *Income Taxes*
- IAS 16 *Property, Plant and Equipment*
- IAS 19 *Employee Benefits*
- IAS 32 *Financial Instruments: Presentation*
- IAS 34 *Interim Financial Reporting*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- IFRS 2 *Share-Based Payment*
- IFRS 3 *Business Combinations*
- IFRS 5 *Non Current Assets for Sale and Discounted Operations*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 11 *Joint Arrangements*
- IFRIC 14 *Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Click to view the IFRIC Update on the meeting of **13-14 May**. The IFRS Interpretations Committee next meets in July 2014.

7. IFRS Accounting Standards Advisory Forum

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

8. International Auditing and Assurance Standards Board

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

9. International Ethics Standards Board for Accountants

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

Useful Resources

10. Publications

- (i) The Institute's [alert](#) on EU audit market reform
- (ii) US Centre for Audit Quality's [publication](#) on audit quality indicators and [alert](#) on cybersecurity and external audit
- (iii) PwC updates on the latest developments on IFRS published in [April](#) and [May](#)
- (iv) KPMG [Illustrative condensed interim financial statements](#) and [Disclosure checklist](#) for annual periods beginning on or after 1 January 2014
- (v) EY [guide](#) on credit valuation adjustments for derivative contracts
- (vi) Hong Kong Confederation of Insurance Brokers [guidance note](#) on keeping of separate client monies

Comment Due Dates

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)*

25 July 2014: IESBA ED on Proposed Changes to Certain Provisions of the Code Addressing Non-assurance Services for Audit Clients

11 August 2014: IAASB ED Proposed Changes to the International Standards on Auditing Addressing Disclosures in the Audit of Financial Statements

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

11. Invitation for Views and Feedback by Competition Commission

Under the Competition Ordinance, the Competition Commission ("Commission") is tasked to develop a set of guidelines to inform stakeholders how it expects to interpret the Ordinance and to outline its processes for considering applications, dealing with complaints and conducting investigations.

As a start of its engagement work, the Commission has published a paper "[Getting Prepared for the Full Implementation of the Competition Ordinance](#)", to reach out to businesses and the general public to explain the Commission's role and the key elements of the Ordinance. Stakeholders are invited to give feedback and provide information of trade practices in Hong Kong for the development of draft guidelines for consultation later this year.

Click to view the relevant [powerpoint presentation](#) and [website](#) for communication details.

Corporate Finance

12. SFC Outlines Risks of Crowd-funding and Potential Regulatory Issues

The Securities and Futures Commission ("SFC") [has issued](#) a [notice](#) reminding parties engaging in crowd-funding activities of the potential application of relevant securities laws and regulations, and reminding the public of potential risks relating to participating in crowd-funding activities, given the increase in such activities both internationally and in Hong Kong. The SFC has indicated that it will monitor the development of crowd-funding activities and will take appropriate regulatory action where non-compliance with relevant securities laws and regulations is detected.

The Investor Education Centre has also [published](#) information on its website outlining the key risks of crowd-funding activities.

13. SFC Introduces Online System for Dealing Disclosures under Takeovers Code

The SFC [launched](#) a new [online platform](#) to streamline the submission process for disclosures of dealings under Rule 22 of the Code on Takeovers and Mergers ("Takeovers Code") on 30 May. Simultaneously, the SFC has introduced more user-friendly electronic versions of the public and private disclosure forms for use with the new system. Both the public and private disclosure forms can be accessed on the SFC website. A system user guide is also available online.

Starting from 1 July 2014, all Rule 22 dealing disclosures must be submitted using the online system.

14. The New Sponsor Regime's Requirement Debuted Smoothly

The Hong Kong Exchanges and Clearing Limited ("HKEx") [has indicated](#) that the new sponsor regime and the related new publication requirement, effective from 1 October 2013 and 1 April 2014 respectively, have been working smoothly and the market has adjusted well to the new process.

HKEx received 82 listing applications under the new sponsor regime as of the end of April 2014 and returned nine cases for a variety of reasons. Since 1 April 2014, an application proof, which is the initial proof of the listing document, would be published on the HKExnews website once it has been accepted for vetting. As of the end of April, four application proofs have been posted on the HKExnews website.

Since the new sponsor regime has become effective, there is a reduction in the vetting time and the number of regulatory comments. The median vetting time has been reduced from 133 days to 59 days, and the average number of regulatory comments has been reduced from 155 comments to 53 comments per case.

15. Court of First Instance Orders Firm to Produce Accounting Records to SFC

The Court of First Instance has ordered Ernst & Young ("EY") to produce specified accounting records relating to its work as the reporting accountant and auditor for Standard Water Limited ("Standard Water") to the SFC.

Under section 183 of the Securities and Futures Ordinance ("SFO"), the SFC is empowered to require information from persons whom it believes may have information relevant to an investigation. If a person fails to comply with such a request, the SFC can bring proceedings under section 185 of the SFO.

The SFC brought proceedings to compel the production of documents, as part of an investigation into the proposed listing of Standard Water. The court has now ordered EY to comply with the SFC notices under section 183.

Click [here](#) for the court judgment.

Restructuring and Insolvency

16. Consultation Conclusions on Improving Corporate Insolvency Regime

On 28 May, the government published the [conclusions](#) of the public consultation on improvement of the corporate insolvency law and the [detailed proposals](#) for introducing a statutory corporate rescue procedure ("CRP") and insolvent trading provisions.

As regards corporate insolvency law, [TechWatch no. 127](#) (item 18) and [no.130](#) (item 16) contain further details about the consultation and the Institute's submission, respectively.

Given that all legislative proposals set out in the [consultation document](#) were supported by the majority of respondents, the government plans to finalize the legislative proposals and introduce an amendment bill into the Legislative Council in 2015.

As regards a statutory CRP, this would provide an opportunity for a company in financial

difficulty to restructure and potentially revive its business, instead of commencing a liquidation process to wind up the company. Insolvent trading provisions, meanwhile, would encourage directors of a company in financial difficulty to take action, before the company goes deeper into insolvency, and so provide better protection to creditors. The [proposals](#) on CRP were developed based on the conclusions of a public consultation on the statutory CRP and the insolvent trading provisions conducted in 2009-10 and some subsequent discussions with stakeholders.

[TechWatch no. 85](#) (item 15), [no. 89](#) (item 1 under "Insolvency and Corporate Restructuring") and [no. 94](#) (item 17) contain further details about the CRP and insolvent trading provisions consultation, the Institute's submission and the consultation conclusions, respectively.

Taxation

17. Announcements by the Inland Revenue Department and Other Tax Matters

Members may wish to be aware of the following matters:

- [Taxpayer jailed for false claims for dependent parent allowances](#)
- [Community service orders for two property owners over tax evasion](#)
- [FAQ 34](#) of buyer's stamp duty which has been updated to further explain the requirement for making statutory declaration overseas
- The Secretary for Financial Services and the Treasury's [opening remarks](#) at meeting of Bills Committee on Stamp Duty (Amendment) Bill 2013. Click also the [transcript](#) of the Secretary's remarks.
- [A notice](#) explaining tax obligations of taxpayers and employers.
- [Decision of the Court of Final Appeal in Moulin Global Eyecare Trading Ltd \(in liquidation\)](#): Judicial review of the

commissioner's refusal to accept late objection under section 64 of the IRO and refusal to accept section 70A claim.

Legislation & Other Initiatives

18. Companies Registry Update

The Companies Registry has issued External Circular No. 12/2014 **The New Companies Ordinance (Cap. 622) – Compounding of Specified Offences** to explain the new power of the Registrar of Companies under the new Companies Ordinance (Chapter 622) to compound specified offences on the fulfilment of certain conditions.

19. Anti-Money Laundering

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

- **Government notice 2517**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 2518**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- **Government notice 2519**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Eritrea) Regulation.
- **Government notice 2520**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Somalia) Regulation.
- **Legal notice 62**: The United Nations Sanctions (Yemen) Regulation 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

20. 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.

21. Other Publications

- (i) HKEx has published:
 - Guidance letters in relation to:
 - listed issuers using contractual arrangements for their businesses (**HKEx-GL77-14**)
 - application of the reverse takeover requirements under the listing rules (**HKEx-GL78-14**)
 - Updated guidance letter in relation to financial information for the trading record period expected in the first draft listing document for listing applications (**HKEx-GL6-09A**)
 - Presentation materials (simplified Chinese version only) in relation to:
 - **enforcement of listing rules and update**
 - **update on corporate governance and environmental, social and governance reporting**

- Webcasts in relation to:
 - **review of the implementation of inside information regime and continuing obligations under the Listing Rules** (click [here](#) for the slides)
 - **rule amendments relating to connected transactions and definitions of connected person and associate** (click [here](#) for the slides)
- **Report** on initial public offering applications, delisting and suspensions (as at 30 May)
- Main Board and GEM listed issuer corporate documents 2013 on DVDs are available for **subscription**
- (ii) Articles on corporate governance by Deloitte:
 - **Business succession planning – cultivating enduring value, volume 5, family dynamics and governance**
 - **As risks rise, boards respond – a global view of risk committees**
 - **CFO insights – can internal audit be a command center for risk?**
 - **Audit committee brief – technology at the forefront**
- (iii) **Defining engagement: an update on the evolving relationship between shareholders, directors and executives**
by Investor Responsibility Research Center Institute