



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

Members' Handbook

1. Handbook Updates No. 177-178

- (i) **Update No. 177** contains updates to the *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard* (Revised December 2015), which are mainly housekeeping in nature.
- (ii) **Update No. 178** contains the first batch of revised pronouncements relevant to HKSAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which came into effect on 15 December 2015.

Financial Reporting

2. The Institute's Financial Reporting Standards Committee Meeting Minutes

The **minutes** for the FRSC meeting held on 10 November 2015 is now available and covers the following key items:

- Report on recent standard-setting events;
- IASB EDs relating to the *Conceptual Framework*;
- IASB Request for Views *2015 Agenda Consultation*;
- IASB Draft IFRIC Interpretations; and
- Matters relating to the new Companies Ordinance.

3. Recent Invitation to Comment on an IASB ED

The Institute issued an **Invitation to Comment** on the IASB Exposure Draft ("ED") ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (Proposed

amendments to IFRS 4) and requested for comments by **22 January 2016**.

In addition, the Institute is hosting a roundtable discussion on ED/2015/11 with targeted stakeholders on 27 January. Representatives from the IASB will also attend the roundtable.

Both IFRS 9 (which was issued in July 2014 and has an effective date of 1 January 2018) and the forthcoming new Insurance Contracts Standard (which will replace the existing IFRS 4 and have a later effective date) are relevant to entities that issue insurance contracts. Some of those entities have expressed concerns about the need to implement two significant changes in accounting on different dates. They have also highlighted that potential increased accounting volatility could arise in profit or loss if the new requirements for financial instruments were to be applied before the new requirements for insurance contracts.

In order to balance meeting the needs of those stakeholders with the needs of users of financial statements, the IASB has proposed the following amendments to IFRS 4. These proposals supplement existing options within IFRS 4 that could be used to address any accounting volatility that may arise:

- The **overlay approach**: an option for an entity that issues insurance contracts to remove from profit or loss the incremental volatility in profit or loss caused by changes in the measurement of financial assets upon application of IFRS 9. This approach would be in place until the new Insurance Contracts Standard comes into force; and
- The **deferral approach**: an optional temporary exemption from applying IFRS 9 that would be available to entities whose predominant activity is to issue insurance contracts. Such a deferral would be available until the new Insurance Contracts Standard comes into effect (but it would not be used after 1 January 2021).

The IFRS Foundation published an article **Investor Perspective – Mind the gap?** that

provides an overview of the proposals in IASB ED/2015/11 and discusses the importance of investor involvement during the comment period.

4. Institute Comments on IASB EDs

(i) IASB ED/2015/6 *Clarifications to IFRS 15*

The Institute **commented** on IASB ED/2015/6 and supports the efforts of the IASB and the FASB (the boards) in responding to implementation concerns raised about the new revenue standard. The Institute encourages the boards to continue to work towards converged solutions to implementation issues related to the revenue standard whenever possible. Having said that, the Institute supports, first and foremost, standards that are high-quality, understandable and principle-based, over and above simply having a standard that is identical for the sake of convergence.

In general, the Institute agrees with most of the proposals as set out in the IASB ED and agrees with the IASB's decision not to clarify certain other issues where the FASB has decided to provide further guidance in the Standard. However, the Institute understands that people are having difficulty in applying the concept of 'distinct' in the Standard and the Institute would support additional clarifications being made in the Standard itself, and not limited to the Illustrative Examples. In this regard, the Institute believes the changes proposed by the FASB relating to identifying performance obligations (or the concept of 'distinct') are helpful and would encourage the IASB to consider the approach proposed by the FASB.

The boards have pursued different approaches in addressing some implementation concerns relating to the new standard and have claimed that the financial reporting outcomes might not be significantly different. However, the Institute believes that the outcomes will not be the same in all cases. The Institute is concerned that using different words to

clarify or amend the standard will introduce additional complexity, diversity in practice and will no longer be a converged standard.

Therefore, the Institute believes it is important that the IASB includes a discussion in the Basis for Conclusions for each area where the wording of IFRS 15 *Revenue from Contracts with Customers* and ASC Topic 606 (the equivalent of IFRS 15) are diverged. It should state explicitly whether the difference is simply semantic or that it could result in divergent practice and explain the circumstances in which this may occur. It would also be helpful if a comparison table between IFRS 15 and Topic 606 is included similar to the one provided in IFRS 3 *Business Combinations* (as revised in 2008) which identifies and compares those paragraphs in which the IASB and the FASB have different requirements.

(ii) IASB EDs on Conceptual Framework

The Institute commented on **IASB ED/2015/3 *Conceptual Framework for Financial Reporting*** and **IASB ED/2015/4 *Updating References to the Conceptual Framework***.

The Institute appreciates the IASB's effort to initiate a comprehensive revision of the *Conceptual Framework*. The Institute is pleased to note that the IASB has responded to some of its recommendations in response to the IASB's Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*.

The Institute has raised a number of concerns on matters that the Institute considers the IASB has not sufficiently addressed in ED/2015/3 or that the Institute considers should be a priority. In particular:

- The distinction between liabilities and equity is a fundamental conceptual issue that needs to be better addressed in the *Conceptual Framework* project as a matter of priority.

- The proposed description of a present obligation, the Institute has serious concerns on what 'no practical ability to avoid the transfer' means in practice and how it is intended to differ from the requirements contained in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- The IASB should provide additional guidance on how preparers can deal with the potential conflicting views between the revised *Conceptual Framework* and existing standards. When determining which view should take precedent, the Institute suggests that cross-reference should be made to the hierarchy in paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* instead of directly to the revised *Conceptual Framework*.
- The IASB should attempt to define what is meant by 'profit or loss' and provide a principle for what items should be included in other comprehensive income. The Institute also considers that putting too much emphasis on a single measure ('profit or loss') is the source of the problems in reporting financial performance and that greater emphasis should therefore be placed on disaggregation within the performance statement, rather than on a single measure of profit or loss.

Audit & Assurance

5. The Institute's Auditing and Assurance Standards Committee Meeting Minutes

The [minutes](#) for the AASC meeting held on 20 October 2015 is now available and covers the following key items:

- Changes to the HKSAs as a result of the Disclosures project (Addressing Disclosures in the Audit of Financial Statements) developed by the IAASB;
- Draft FAQ on early adoption of the new and revised HKSAs; and

- Update on tripartite meeting with Mandatory Provident Fund Authority and Hong Kong Trustees Association.

6. Recent Invitation to Comment on IAASB Consultation Document

The Institute issued an [Invitation to Comment](#) on the IFAC's IAASB Invitation to Comment ("ITC") on *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Controls and Group Audits* and requested for comments by **16 April 2016**.

The ITC highlights the IAASB's discussions in professional skepticism, quality controls and group audits and indicates potential standard-setting activities that could enhance audit quality. The IAASB also released a companion document, *Overview of the ITC* ("Overview"), which summarizes the key areas the IAASB is exploring and the direction it may take. The Overview is designed to solicit feedback from and improve collaboration with investors, audit committees, and preparers. Responses to this consultation will guide the IAASB's work over the next few years.

Ethics

7. The Institute's Ethics Committee Meeting Minutes

The [minutes](#) for the EC meeting held on 26 June 2015 is now available and covers the following key items:

- Report on IESBA National Standard Setters Meeting held on 6 May 2015;
- Report on IFAC SMP Committee Meeting held in June 2015;
- IESBA ED on *Responding to Non-Compliance with Laws and Regulations*; and
- The revision to the Code in relation to the IESBA pronouncement on *Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients*.

International Meetings

8. International Accounting Standards Board

The IASB met on 15-16 December 2015 and discussed the following topics:

- Effective Date of Amendments to IFRS 10 and IAS 28 – Due process
- Disclosure Initiative
- IFRS Implementation Issues
- IFRS 3 Business Combinations – Definition of a business
- Research programme
- Revenue from Contracts with Customers
- Discount rates research

Click to view the [IASB Update](#) for this meeting. The IASB next meets on 18-22 January 2016.

9. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets on [12-13 January 2016](#).

10. IASB Accounting Standards Advisory Forum

The IASB ASAF next meets on [7-8 April 2016](#).

11. International Auditing and Assurance Standards Board

The IAASB next meets on [14-18 March 2016](#).

12. International Ethics Standards Board for Accountants

The IESBA next meets on [14-16 March 2016](#).

Useful Resources

13. Publications

KPMG published:

- an [illustrative disclosures supplement](#) to help users navigate the new disclosure requirements of IFRS 15;
- [illustrative HKFRS financial statements](#) for the year ended 31 December 2015; and
- a [publication](#) to help users understand the potential impact of the forthcoming insurance standard.

PwC published [sample interim financial reports](#) to illustrate the financial reporting requirements that would apply to a parent entity in a consolidated entity under IFRS.

The IFRS Foundation published [training materials](#) for IFRS 9 *Financial Instruments* and IFRS 15.

IIRC and IFAC published [Guidance for the Preparation of Integrated Reports](#) with explanation on materiality and the corresponding determination process in the context of integrated reporting.

Comment Due Dates

Comments to the Institute on the following consultation documents are due by:

11 January 2016: IASB ED/2015/10 *Annual Improvements to IFRSs 2014-2016 Cycle*

22 January 2016: IASB ED/2015/8 *IFRS Practice Statement: Application of Materiality to Financial Statements*

22 January 2016: IASB ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (Proposed amendments to IFRS 4)

19 February 2016: IASB ED/2015/9 *Transfers of Investment Property* (Proposed amendment to IAS 40)

16 April 2016: IFAC's IAASB Invitation to Comment *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Controls and Group Audits*

Specialist Practices, Business Members and Advocacy

Small & Medium Practitioners

14. IESBA Draws Auditors' Attention to Key Ethics Code Provisions when Facing Downward Pressure on Audit Fees

International Ethics Standards Board of Accountants staff have developed a new publication, [Ethical Considerations Relating to Audit Fee Setting in the Context of Downward Fee Pressure](#), in response to stakeholder concerns about downward pressure on fees and its potential to adversely impact audit quality.

Among other matters, the publication outlines some of the reasons for downward pressure on audit fees and focuses on the key fundamental principles in the Code of Ethics for Professional Accountants ("the Code") to which auditors must pay particular attention in relation to the setting of audit fees. It also highlights the different, but important, roles that those charged with governance, entity management, regulators, and other stakeholders can play in ensuring that financial considerations related to audit fees do not drive actions and decisions that undermine audit quality.

Professional Accountants in Business

15. HKEx Strengthens ESG Reporting Requirements

On 21 December, Hong Kong Exchanges and Clearing ("HKEx") [published](#) the [consultation conclusions](#) on Review of the Environmental, Social and Governance ("ESG") Reporting Guide ("Guide").

As reported in [TechWatch no. 154](#) (item 18), HKEx issued a [consultation paper](#) to seek views on its proposed amendments to the ESG Guide (Appendix 27 to the Main Board Listing Rules and Appendix 20 to the GEM Listing Rules) and related Listing Rules. Click [here](#) to see the Institute's response.

In summary, the main changes to the ESG Guide and related Rules include:

- amending Main Board Rule 13.91 (GEM Rule 17.103) to require issuers to state in their annual reports or ESG reports whether they have complied with the "comply or explain" provisions set out in the ESG Guide for the relevant financial year; and if they have not, to give considered reasons in their ESG reports;
- revising the introductory section of the Guide to provide more guidance on reporting and to bring it more in line with international standards;
- re-arranging the Guide into two Subject Areas: (A) Environmental and (B) Social;
- upgrading the General Disclosures under each Aspect of the Guide to "comply or explain";
- revising the wording of the General Disclosures (where relevant) to be consistent with the directors' report requirements under the Companies Ordinance (Cap. 622), which will be incorporated in the Rules for financial years ending on or after 31 December 2015;
- upgrading the Key Performance Indicators ("KPIs") in the "Environmental" Subject Area to "comply or explain"; and
- revising the voluntary provisions of the Guide (i.e. the recommended disclosures) to bring it more in line with international standards of ESG reporting by incorporating disclosure of gender diversity.

The amendments to the ESG Guide and related Rules will come into effect in two phases:

- Rule amendments and upgrade of the General Disclosures in the Guide from recommended to "comply or explain", as well as the revised recommended disclosures, will be effective for financial years commencing on or after 1 January 2016; and

- upgrade of the KPIs in the “Environmental” Subject Area of the Guide from recommended to “comply or explain” will be effective for financial years commencing on or after 1 January 2017.

Corporate Finance

16. HKEx Publishes Guidance Letters on Cash Company Rules and Trading Halts

(i) Cash company rules

On 21 December, HKEx issued a **guidance letter** on its approach in applying the cash company provisions of the Listing Rules to large scale fundraising activities. The purpose of the Listing Rules on cash companies is to enable HKEx to maintain market quality and avoid speculative trading in the securities of cash companies. They have the effect of preventing listed issuers which become cash companies from starting new businesses that are not suitable for listing.

Under the Listing Rules, a cash company – a company whose assets consist wholly or substantially of cash – is not suitable for listing. There is no prescribed quantitative threshold in the rules for defining a cash company. When making the assessment, HKEx considers not only the issuer's cash level, but also the background facts and circumstances of the issuer's business, operations and financial position. Once an issuer is considered to be a cash company, its application for resumption of trading would be treated as if it were a new listing application.

(ii) Trading halts

Guidance letter on trading halts in securities of listed issuers, issued by HKEx on 11 December, sets out the criteria for and principles of trading halts under the current rules, and provides guidance on good practices about trading halts pending disclosures of material information by listed issuers. It also facilitates investors'

understanding of the circumstances where trading halts are necessary.

HKEx noted an increase in the number of trading halts in the first half of 2015 alongside with an increase in issuers' corporate activities. In the first six months of 2015, there were 522 trading halts (309 for the same period in 2014). In most of these cases, trading was halted because the issuer said that it had a disclosure obligation under Part XIVA of the Securities and Futures Ordinance (e.g., agreements on material transactions or fundraising activities) but could not promptly announce the information, or there were circumstances which caused the issuer to believe that confidentiality in respect of inside information (e.g., material corporate activities under negotiation) might have been lost. The number of trading halts between July and November went down to 305, same level as 2014.

17. SFC and CSRC Authorize First Batch of Funds under Mainland-Hong Kong Mutual Recognition of Funds Initiative

As reported in **TechWatch no. 152** (item 18), the Securities and Future Commission ("SFC") and the China Securities Regulatory Commission ("CSRC") signed a Memorandum of Regulatory Cooperation on Mainland-Hong Kong Mutual Recognition of Funds ("MRF") allowing eligible Mainland and Hong Kong funds to be distributed in each other's market through a streamlined vetting process. The SFC and the CSRC have been accepting MRF applications since 1 July 2015.

On 18 December 2015, the SFC granted authorization for the first batch of four Mainland funds under the MRF initiative for public offering in Hong Kong, and the CSRC also approved the first batch of three Hong Kong funds for public offering on the Mainland market. The approval of the first batch of funds under the MRF is a milestone in the implementation of this important cross-border cooperation initiative. Refer to the SFC's **press release** for details.

18. Hong Kong as a Regional Hub of Corporate Treasury Centres

As announced by John Tsang, the Financial Secretary in the 2015-16 Budget, the Inland Revenue Ordinance would be amended so to attract multinational and Mainland corporations to centralize their treasury functions in Hong Kong to provide treasury services for their group companies. This would enhance the competitiveness of Hong Kong's development as an international financial centre and business hub and generate demand for the financial and professional services sectors.

An [A Plus article](#) (November 2015 issue) looks at the steps taken to promote Hong Kong as a preferred location for regional treasury centres.

On 4 December, the [Inland Revenue \(Amendment\) \(No. 4\) Bill 2015](#), which aims to enhance the existing interest deduction rules for the intra-group financing business of corporations and introduce a concessionary profits tax rate for qualifying corporate treasury centres, was gazetted. The bill contains relevant anti-avoidance provisions to ensure that the proposals are consistent with the latest international standards to combat base erosion and profit shifting. It also seeks to clarify profits tax and stamp duty treatments in respect of regulatory capital securities issued by banks in compliance with Basel III capital adequacy requirements.

Click [here](#) to read a question on the bill raised by a Legislative Council member before it was introduced into the LegCo for first reading on 16 December, and the government's reply thereto.

Taxation

19. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- The latest position of the Inland Revenue Department ("IRD") on [Court-free Company Amalgamations](#)

- The [tax treaty](#) between Hong Kong and the United Arab Emirates come into force
- Notices to [remind taxpayers to pay their taxes on time](#), and [employers to inform the IRD their change of their postal addresses](#)
- [Stamping Circular No. 01/2016 on stock borrowing relief](#)
- [The Inland Revenue \(Amendment\)\(No.4\) Bill 2015 \(on corporate treasury centres and banks' regulatory capital\)](#) (see item 18 above) has been introduced into LegCo
- [The Inland Revenue \(Amendment\) Bill 2016 \(on automatic exchange of information\)](#) has been introduced into LegCo. See the [LegCo website](#) for further information.

Legislation & Other Initiatives

20. Anti-Money Laundering Notices

Members may wish to note the following notices and publications in relation to AML/CFT:

- [Government notice 9389](#): An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- [Government notice 9509](#): An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- [Government notice 9732](#): An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- Legal notices [239 & 240](#): The United Nations Sanctions (Liberia) (No.2) Regulation 2015 and the United Nations Sanctions (Liberia) Regulation 2015 (Repeal) Regulation were made under the United Nations Sanctions Ordinance.

- **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 [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

21. 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.

22. Other Publications

(i) HKEx has published:

- Guidance letters on:
 - trading halts ([HKEx-GL83-15](#))
 - cash company rules ([HKEx-GL84-15](#))
- **HKEx Derivatives Market Transaction Survey 2014/15**, which covers Heng Seng Index (“HSI”) futures, HSI options, Mini-HSI futures, Mini-HSI options, H-shares Index (“HHI”) futures, HHI options, Mini-HHI futures and stock options, together accounted for 99% of the total turnover of the HKEx derivatives market during the survey period. Key findings are highlighted in the [press release](#)

- **Market statistics for 2015**

- **Report** on initial public offering applications, delisting and suspensions (as at 31 December)

(ii) SFC has published:

- **Takeovers Bulletin (issue no. 35)** covers Takeovers and Mergers Panel’s decisions on China Oriental and Cross Harbour; and reminders about the impact of disqualifying transactions and associates’ dealing disclosure

(iii) Companies Registry has **released** annual statistics for 2015

(iv) Other publications:

- **The “sharing economy” presents challenges and opportunities for the profession**, IFAC
- **Cybersecurity and the role of internal audit**, Deloitte
- **When change isn’t an option but a mandate: What Big Data is doing to accounting**, TechVentive
- **G20/OECD principles of corporate governance**, The Organization for Economic Co-operation and Development
- **Surprising effects of mandatory auditor rotation on audit quality**, University of Mississippi, University of Illinois at Urbana-Champaign and University of Massachusetts – Amherst
- **Economic conditions snapshot, December 2015: McKinsey Global Survey results**
- **Culture and channeling corporate behavior: ACCA member survey**