



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.

Contents

Financial Reporting, Auditing and Ethics

Technical Learning and Support

1. [Technical Learning and Support Programme March - May 2016](#)

Financial Reporting

2. [The Institute's Financial Reporting Standards Committee Meeting Minutes](#)
3. [Institute Comments on IASB Exposure Drafts](#)

Audit & Assurance

4. [The Institute's Auditing and Assurance Standards Committee Meeting Minutes](#)
5. [New and Revised HKSA's](#)
6. [Long Service Payment](#)

Ethics

7. [Invitation to Comment on IESBA Exposure Draft](#)

International Meetings

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

Useful Resources

13. [Publications](#)

Comment Due Dates

Advocacy and Practice Development/ Member Support

Small & Medium Practitioners

14. [IFAC Global SMP Survey: Expectations for Coming Year Moderate but Remain Optimistic](#)

Corporate Finance

15. [SFC Establishes Fintech Contact Point](#)
16. [Regulators Release Conclusions on Introducing Mandatory Clearing and Expanding Mandatory Reporting for OTC Derivatives Market](#)
17. [SFC Expands the Scope of Short Position Reporting](#)

Taxation

18. [Budget 2016-17](#)
19. [Announcements by the Inland Revenue Department](#)

Legislation & Other Initiatives

20. [Electronic Land Registry News No. 41](#)
21. [Anti-Money Laundering Notices](#)

Useful Resources

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

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Financial Reporting, Auditing and Ethics

Technical Learning and Support

1. Technical Learning and Support Programme March - May 2016

The Institute will run a series of technical update evenings, workshops and seminars in March to May 2016:

- [Lunch Seminar: Introducing IFRS 16 Leases](#)
- [Workshop on Quality Control](#)
- [Workshop for Audit Staff and Senior](#)

Register early to secure a seat. Click on the above event titles for the registration forms.

Financial Reporting

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

The [minutes](#) for the FRSC meeting held on 15 December 2015 is now available and covers the following key items:

- Draft submission on IASB Request for Views 2015 Agenda Consultation;
- High level comments on IASB Draft IFRIC Interpretations; and
- IASB Exposure Drafts.

3. Institute Comments on IASB Exposure Drafts

- (i) IASB ED/2015/8 IFRS Practice Statement: *Application of Materiality to Financial Statements*

The Institute **commented** on the IASB's ED/2015/8 and supports the issuance of non-mandatory guidance on materiality in the form of a Practice Statement.

The Institute considers that the Practice Statement would provide useful guidance and practical examples for preparers to determine how to exercise judgement when assessing materiality of financial information. Therefore, the Institute agrees that the Practice Statement should be issued without waiting for the completion of the IASB's Principles of Disclosure project.

Nevertheless, the Institute suggests improvements that would clarify the proposed content and examples in the Practice Statement. In particular, adding application guidance and/or examples that illustrate how the decisions to omit immaterial information from the financial statements, and how materiality affects the extent of qualitative disclosures, would be very useful in the context of exercising judgement.

- (ii) IASB ED/2015/10 *Annual Improvements to IFRS 2014-2016 Cycle*

The Institute **commented** on and supports the proposed amendments in the IASB's ED/2015/10. The Institute welcomes the IASB's annual improvements to make necessary, but non-urgent, amendments to IFRSs that address inconsistencies in the application of Standards and clarify the wording in a Standard.

- (iii) IASB ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The Institute **commented** on the IASB's ED/2015/11 and appreciates the IASB's efforts in considering two optional approaches that seek to address any issues that would arise from the misalignment of effective dates of IFRS 9 and the forthcoming insurance contracts standard.

Overall, the Institute considers both the deferral approach and the overlay approach are necessary to address the different circumstances and operational complexities that may be encountered by individual

entities, as there is a diverse range of entities with insurance activities within the scope of IFRS 4.

While insurers could adopt IFRS 9 based on the existing IFRS 4, in reality, the linkage between the assets and liabilities for an insurance business is so intertwined that implementation of IFRS 9 before understanding the full requirements of the forthcoming insurance contracts standard would be challenging from an operational, accounting and reporting perspective. Hence, the Institute believes that there is a stronger argument in providing the deferral approach for insurance entities to facilitate a well-thought out, effective and efficient implementation of both IFRS 9 and the forthcoming insurance contracts standard.

However, the Institute has serious concerns that the proposed criterion outlined in the deferral approach for the eligibility, assessment and application of the predominance test at the reporting entity level is overly quantitative. The Institute strongly encourages the IASB to consider more principle-based eligibility criteria for the deferral approach that includes qualitative as well as quantitative conditions.

The Institute broadly supports providing both the deferral approach and the overlay approach as options for entities in applying IFRS 9 with IFRS 4.

Audit & Assurance

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

The [minutes](#) for the AASC meeting held on 15 December 2015 is now available and covers the following key items:

- (i) IAASB's Work Plan;
- (ii) Changes to pronouncements arising from HKSAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*; and

- (iii) Update on the definition of 'Listed Entity'.

5. New and Revised HKSA's

As part of convergence with pronouncements issued by the IAASB, the Institute has issued new and revised HKSA's in August 2015 and January 2016 ([Members' Handbook Update 172](#) & [Members' Handbook Update 180](#), respectively) in relation to auditor reporting, auditor's responsibilities relating to other information and auditing disclosures.

The new and revised HKSA's are effective for audits of financial statements for periods ending on or after 15 December 2016.

Changes to HKSA 570 (Revised) *Going Concern*, HKSA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* and HKSA 260 (Revised) *Communication with Those Charged with Governance* will also affect the performance of audit work. Auditors need to allow a reasonable period for implementation preparation (including training and changes to firms' audit methodologies).

Auditors are encouraged to be familiarized with the new and revised HKSA's. Audit firms should commence work on developing implementation guidance, training and communications necessary to educate engagement teams. Auditors are also reminded to discuss the implications of the new and revised HKSA's with their clients as early as possible.

Further guidance on the changes:

- [A Plus, May 2015 issue](#);
- [A Plus, October 2015 issue](#);
- [A Plus, December 2015 issue](#); and
- [IAASB Auditor Reporting Toolkit](#).

6. Long Service Payment

The following information regarding long service payment is for members' attention.

The Employment Ordinance ("EO") provides a long service payment ("LSP") that an employee is entitled to be reduced by the total sum of the amounts of all retirement scheme payments (excluding that part of the payments which represents the employee's own contributions or the interest thereon).

According to the EO, an employee employed under a continuous contract for not less than 5 years is entitled to LSP if:

- the employee is dismissed (except by reasons of redundancy or summary dismissal due to the employee's serious misconduct);
- the employee's fixed term employment contract expires without being renewed;
- the employee dies during employment;
- the employee has been issued a certificate in a specified form by a registered medical practitioner or a registered Chinese medicine practitioner, certifying that the employee is permanently unfit for the present job and the employee resigns; or
- the employee is aged 65 or above and resigns on ground of old age.

Since December 2000, if an employee becomes entitled to LSP and accrued benefits derived from employer contributions are held in an MPF scheme in respect of the employee, or has been paid to the employee, the LSP can be offset against the accrued benefits to the extent that they relate to the employee's years of service for which the LSP is payable.

Trustees of MPF Schemes, having to ensure compliance with the Personal Data (Privacy) Ordinance and section 41 of the Mandatory Provident Fund Scheme Ordinance, can no longer disclose the employer MPF account balances of an individual employee to the corresponding current employer, unless the employee is entitled to LSP.

Where the employee is entitled to LSP in accordance with the EO, upon request of the

relevant employer, the trustee can disclose to that employer the account balance of employer's contributions made for that employee. However, as an auditor is not a relevant party to such offsetting arrangement, trustees are not in a position to disclose the information to the auditor. If the auditor would like to obtain such information, they can ask the relevant employer to make a request to the relevant trustee.

Except for cases where the employee is entitled to LSP, a trustee can only provide the aggregate balance of employer MPF account balance for all employees (regardless of the employees' years of service at the company). Upon further request by the employer, trustees may be able to provide further breakdown of the aggregate balance (e.g. by years of service), provided that the breakdown does not identify individual employees.

Ethics

7. Invitation to Comment on IESBA Exposure Draft

The Institute has issued an [Invitation to Comment](#) on the IESBA's ED *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client* and requested for comments to the Institute by **8 April 2016**.

The IESBA issued its first exposure draft of its proposals, *Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing the Long Association of Personnel with an Audit or Assurance Client* in August 2014 with an aim to develop more robust and comprehensive provisions dealing with the long association of personnel with an audit or assurance client. In light of the respondents' comments on the first exposure draft and the IESBA's discussions with its Consultative Advisory Group and other stakeholders, the IESBA concluded on many aspects of its revised proposals but determined that there was a need to re-expose three remaining issues.

The proposals being re-exposed are:

- An increase from two to five years in the cooling-off period for the engagement quality control reviewer ("EQCR") on the audit of a listed entity, and to three years on the audit of a public interest entity ("PIE") other than a listed entity;
- An alternative approach to the cooling-off requirements for PIE audits in the *Code of Ethics for Professional Accountants* where jurisdictions have established different but robust legislative or regulatory safeguards to address the threats to auditor independence created by long association; and
- A revised approach to determining how long an individual should cool off after having served either as an engagement partner or as an EQCR, or in a combination of roles, for only part of the seven-year period they have served as a Key Audit Partner.

The ED incorporates:

- A basis of conclusions regarding proposals that have been finalized;
- A memorandum providing the background to, and an explanation of, the proposals subject to re-exposure; and
- A set of proposed IESBA Staff Questions and Answers ("Q&A") to assist stakeholders in better understanding the re-exposed proposals. These Q&A will be issued with the final provisions to facilitate implementation.

International Meetings

8. International Accounting Standards Board

The IASB met on 16-17 February 2016 and discussed the following topics:

- Insurance Contracts;
- Goodwill and Impairment;
- IFRS Implementation issues; and

- Financial Instruments with Characteristics of Equity.

Click to view the [IASB Update](#) for this meeting. The IASB next meets on 14-18 March 2016.

9. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets on [22 March 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

PwC published an [article](#) detailing the implications of the new leases standard on the retail and consumer industry.

KPMG published an [overview](#) of significant differences between IFRS and U.S. GAAP.

The Institute published [Q&A topics 1.6 and 1.7](#) relating to the identification of relevant accounting standards in circumstances where a holding company or a company that is not a holding company has investments in joint ventures and/or associates, and prepares financial statements in accordance with section 379(3) or section 379(1), respectively.

The IASB published an [Investor Perspectives article](#) that discusses how the new leases standard will impact investors.

Comment Due Dates

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

14 March 2016: IFAC's IESBA ED *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*

8 April 2016: IFAC's IESBA ED *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*

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. IFAC Global SMP Survey: Expectations for Coming Year Moderate but Remain Optimistic

According to the 2015 IFAC SMP Global Survey results recently **published**, SMPs are generally optimistic about performance in 2016, as a majority predict revenues will stay the same or increase across all service lines. However, optimism is not at the same level as a year ago as growth projections across service lines have dropped since 2014.

The top 4 challenges faced SMPs in 2015 remained the same as those in 2014, but the severity of each challenge decreased:-

- Attracting new clients (2015: 47% / 2014: 58%);
- Keeping up with new regulations and standards (2015: 44% / 2014: 57%);
- Differentiating from the competition (2015: 43% / 2014: 50%);
- Pressure to lower fees (2015: 41% / 2014: 51%).

Additional key findings from the survey include:-

- SMPs recognize the value of offering business advisory and consultancy services.
- SMEs face a number of challenges, with economic uncertainty consistently topping the list.
- Competition and regulatory developments will continue to be dominant factors in the SMP business environment.

The 2015 IFAC Global SMP Survey, conducted in October – November 2015, was reported in **TechWatch no.156** (item 12). The survey

received 6,725 respondents, representing 169 countries and more than 800,000 SME clients around the world, making it the largest survey of SMPs. Click to read the [full report](#) and the [summary](#).

Corporate Finance

15. SFC Establishes Fintech Contact Point

The Securities and Futures Commission ("SFC") has established a [Fintech Contact Point](#) as a dedicated channel to encourage businesses involved in the development and application of financial technology in Hong Kong to engage with the SFC. It has also established a [Fintech Advisory Group](#) which will focus on the opportunities, risks and regulatory implications of developments related to Fintech.

According to the Government's [Report of the Steering Group on Financial Technologies](#), Fintech has developed rapidly in recent years. A variety of Fintech activities are relevant to the SFC's regulatory work, among these are automated trading systems, financial product investment and distribution platforms, financing platforms and distributed ledger technology. Other Fintech activities relevant to the SFC's work include big data, data analytics and artificial intelligence to support front and back office operations of licensed intermediaries, compliance, risk and regulatory technologies and cyber and data security technologies.

16. Regulators Release Conclusions on Introducing Mandatory Clearing and Expanding Mandatory Reporting for OTC Derivatives Market

As reported in [TechWatch no. 152](#) (item 17), the Hong Kong Monetary Authority ("HKMA") and the SFC released their [conclusions](#) on further consultation on the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules in May 2015. As stated in their consultation conclusions, HKMA and SFC were also working on developing the detailed rules for the next phase of implementation, including

the introduction of mandatory clearing and expansion for mandatory reporting.

On 5 February, HKMA and SFC published [consultation conclusions](#) to the proposals made in a [joint consultation](#) on introducing mandatory clearing and expanding mandatory reporting for the second stage of the over-the-counter ("OTC") derivatives regulatory regime. The conclusions paper sets out the revised proposals after taking into account market comments and feedback and seeks to further consult on the initial list of financial services providers. Refer to the [press release](#) for highlights about the conclusions and implementation timetable.

A separate conclusions paper on the specific data fields to be completed under expanded mandatory reporting will be issued shortly.

17. SFC Expands the Scope of Short Position Reporting

On 24 February, the SFC [published consultation conclusions](#) on expanding the scope of short position reporting and on corresponding amendments to the Securities and Futures (Short Position Reporting) Rules.

As reported in [TechWatch no. 158](#) (item 17), SFC issued a [consultation paper](#) to seek views on its proposed extension in the scope of short position reporting to all securities that can be short sold under the rules of the Stock Exchange of Hong Kong ("SEHK").

After considering market feedback, the SFC concluded that short position reporting will be expanded to cover all securities that can be short sold under the rules of SEHK. The reporting threshold for stocks will remain unchanged, while the threshold for collective investment schemes will be set at \$30 million.

The SFC plans for the amended rules to come into effect on 15 March 2017, subject to the legislative process. It will make further announcements regarding operational reporting arrangements for the expanded regime.

Taxation

18. Budget 2016-17

The financial secretary delivered the **2016-17 budget speech** on 24 February. In responding to the media, the Institute commented that the budget offered immediate measures to stimulate the economy, boosted gross domestic product 1.1 percent in 2016, and provided some support to the community, but it could have provided more in terms of big-picture vision. Click for a **summary** of the tax measures in the budget and the **Institute's response** (and the **Institute's budget proposals**).

The Institute hosted a lively budget forum on the evening of the budget day, with speakers, legislative councillor Kenneth Leung, Prof. Ho Lok-sang of Lingnan University, Simon Lee of Chinese University, and the taxation faculty budget subcommittee convenor, Curtis Ng. Taxation faculty executive committee chair, Anthony Tam, was the moderator.

19. Announcements by the Inland Revenue Department

Members may wish to note the following matters:

- The Inland Revenue Department's **decision** to appeal against judgment on a judicial review case concerning refund of ad valorem stamp duty (**Ho Kwok Tai v Collector of Stamp Revenue (HCAL 49/2015)**)
- **Tax agreements** between Hong Kong and six Nordic jurisdictions come in force
- **A LegCo question** on tax concessions provided for environmental protection facilities

Legislation & Other Initiatives

20. Electronic Land Registry News No. 41

The 41st issue of the Land Registry News has been released. Click **here** to read the News and get the latest development of the Land Registry.

21. Anti-Money Laundering Notices

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

- **Government notice 480**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Legal notice 24**: The United Nations Sanctions (Somalia) (Amendment) Regulation 2016 has been published in the Gazette.
- **High-risk and non-cooperative jurisdictions**: In February, the Financial Action Task Force ("FATF") issued two documents:
 - **FATF public statement**, identifying jurisdictions with strategic AML/CFT deficiencies that pose risk to the international financial system.
 - **Improving global AML/CFT compliance: on-going process**, identifying jurisdictions with strategic AML/CFT deficiencies, for which they have developed an action plan with the FATF.
- **FATF Guidance for a risk-based approach for money or value transfer services**
- **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

22. 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.

23. Other Publications

- (i) HKEx has published a **report** on initial public offering applications, delisting and suspensions as at 29 February
- (ii) SFC has published:
 - **3rd Quarterly Report** summarizing key developments from October to December 2015
 - **Corporate Regulation Newsletter no. 3**, which suggests points for listed companies to consider when making announcements and disclosing information; and highlights some specific issues that relate to various platforms for making announcements and publishing information.
- (iii) The Financial Services Development Council has published a report entitled **Hong Kong's position limits regime for exchange-traded derivatives – the need for revision**, which sets out recommendations to refine Hong Kong's position limits regime, with a view to enhancing the development of Hong Kong's exchange-traded derivatives market.
- (iv) Other publications:
 - **4 ways accounting firms can use cloud collaboration to set themselves apart**, Accounting Today
 - **Seeking value through internal audit**, KPMG

- **Analytics Trends 2016: The Next Evolution**, Deloitte
- **Does the accounting profession suffer from a branding issue**, Richard Shuback, LLC
- **Are you sufficiently involving your CFO in your strategy planning**, Strategy Blocks
- **Valuing high-tech companies**, McKinsey & Company
- **Science will help push companies towards a low-carbon future**, Guardian Sustainability