



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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Standard Setting Developments

Members' Handbook Updates

1. Handbook Updates No. 212 - 213

Update No. 212 contains revised Practice Notes PN 620.2, PN 810.1 and PN 810.2.

Update No. 213 relates to amendments to HKAS 28 *Investment in Associates and Joint Ventures*.

Financial Reporting

2. Institute's comments on IASB Exposure Draft

The Institute **commented** on the IASB Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates* and ED/2017/6 *Definition of Material*.

3. CFO Forum on HKFRS/IFRS 17 Insurance Contracts

On 29 January, over 140 representatives from Hong Kong insurance companies met with HKICPA and IASB representatives, including IASB Chairman Hans Hoogervorst.

HKICPA and IASB stressed that insurers should not be deterred from implementing the standard. Standard-setters can only assist when they have objective and rational evidence on implementation or endorsement challenges—late implementation would not be a rational reason for deferring the standard.

4. Investor Education Sessions on New and Major Standards

On 1 February, over 20 users of financial statements, including investors and analysts, attended the joint HKICPA-IASB education sessions on:

- IFRS 9 *Financial Instruments*;
- IFRS 15 *Revenue from Contracts with Customers*;
- IFRS 16 *Leases*; and
- IFRS 17.

Users appreciated the improved disclosures and recognition principles. Some users are nonetheless concerned about the need for more management judgment, but have been informed that judgment areas and the underlying assumptions are required to be disclosed. Companies should therefore spend time in ensuring their financial reports provide sufficient, clear and entity-specific information about their accounting policies, judgments and estimates.

5. HKICPA-IFRS Foundation Stakeholder Event

On 31 January, over 100 Hong Kong stakeholders attended a dinner hosted by HKICPA and IFRS Foundation where the honourable Paul Chan Mo-po, GBM, GBS, MH, JP, Financial Secretary of the Hong Kong SAR highlighted the numerous advantages that adopting IFRS has brought to Hong Kong: "Thanks to the convergence of IFRS, the financial statements of public companies in Hong Kong can be compared across the borders and jurisdictions. This has helped Hong Kong to maintain its attractiveness as an international listing platform. It has also reinforced the confidence of investors in our capital market."

A panel comprising investor, preparer, standard-setter and regulator representatives also reflected on the past, present and future of IFRS in Hong Kong. They discussed the achievements of IFRS in improving global corporate reporting—especially in capital markets like Hong Kong—but agreed that accounting standards can only play the role to an extent. Standardized wider corporate reporting requirements, enhanced audit quality and regulator enforcement, and meaningful investor engagement are also necessary aspects to attain effective corporate reporting.

6. International Updates

- The January [IASB Update](#).
- A one-page IASB [summary](#) of the IFRS 17 accounting model.
- The impact of IFRS Standards on financial stability and long-term investments:
 - [IFRS Standards and financial stability](#)
 - [IFRS Standards and long-term investments](#)

Technical Learning and Support

7. New Programmes

Click on the title below to register:

- [Seminar on Companies Ordinance in financial reporting](#) (23 February 2018)
- [Workshops on HKFRS 15 Revenue from Contracts with Customers](#) (February and March 2018)
- [Workshop for audit staff and senior](#) (8 and 10 March 2018)

Useful Resources

8. Institute's Technical Resource Centres

Access the Institute's comprehensive resource centres:

- [New and Major Standards](#)
- [ICAEW's International Accounting, Audit and Ethics Content](#)
- [New Companies Ordinance](#)
- [HKFRS for Private Entities](#)
- [SMP and SME](#)

9. [Linked in](#)

Stay up to date on key developments in financial reporting, auditing and ethics by following the Institute's Standard Setting Department's [LinkedIn](#).

Advocacy and Practice Development/Member Support

Professional Accountants in Business

10. HKEX Publishes Review Results of Disclosure in Issuers' Annual Reports

As part of its regular regulatory activities, Hong Kong Exchanges and Clearing ("HKEX") reviews listed companies' annual reports to monitor their compliance with the Listing Rules, corporate conduct and disclosure of material events and developments, and releases its findings and recommendations to improve transparency and promote a fair, orderly and informed market.

On 26 January, HKEX [published](#) a report on the findings and recommendations from its review of issuers' annual reports for the financial year ended between January and December 2016. The [report](#) provides guidance on specific areas that were selected with reference to the issues observed through HKEX's monitoring efforts and the latest regulatory developments.

Members, in particular preparers of listed company's annual reports, are encouraged to take note of the observations and recommendations discussed in the report and follow the relevant guidance to enhance their annual reports and ensure they comply with the Listing Rules.

11. Keeping of Significant Controllers Registers by Companies

The Companies (Amendment) Ordinance 2018 ("the Amendment Ordinance") will come into operation on 1 March 2018. The Amendment Ordinance introduces new requirements on the keeping of significant controllers registers by companies incorporated in Hong Kong to enhance the transparency of corporate beneficial ownership.

Please refer to the [Companies Registry External Circular No. 2/2018](#) and the [Guideline on the Keeping of Significant Controllers Registers by Companies](#) for details about the new requirements, and visit a dedicated thematic section on [Significant Controllers Register](#) of the Companies Registry ("CR") website.

The CR has set up a dedicated hotline 3142 2822 for handling enquiries relating to the new requirements. Email enquiries can be sent to cr.scr@cr.gov.hk.

Corporate Finance

12. SFC Proposes Amendments to Takeovers Rules

On 19 January, the Securities and Futures Commission ("SFC") launched a three-month [consultation](#) on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs ("the Codes"), with comments requested by **19 April 2018**.

Key proposals aim to enhance investor protection by increasing the voting approval threshold for whitewash waivers to 75% of independent shareholders and empowering the Takeovers Panel to require compensation to be paid to shareholders who have suffered as a result of a breach of the Codes.

Other proposed amendments clarify the obligations of persons dealing with the Takeovers Executive, the Takeovers Panel and the Takeovers Appeal Committee in all Codes transactions, requiring their prompt cooperation and assistance and the provision of true, accurate and complete information.

The consultation also sets out proposed amendments to the term "associate" and the approval of delistings by independent shareholders in jurisdictions which do not afford compulsory acquisition rights.

13. SFC Highlights Compliance Failures in Product Selling Practices

On 25 January, the SFC [published](#) a circular to list out a number of compliance failures during its on-site inspections and investigations of the distribution of complex bonds and structured products by licensed corporations ("LCs").

The [circular](#) reminds LCs of their obligations to comply with the suitability requirement and, in particular, draws attention to the SFC's [expected standards](#) for product due diligence, measures to identify whether any suitability obligation has been triggered, assessment of suitability framework and retention of compliance records. LCs are expected to take note of the areas discussed in the circular and take immediate action to rectify any deficiencies.

14. Guidance on Best Execution of Licensed Corporations expected by SFC

On 30 January, SFC [issued](#) a circular which sets out guidance on the standards of conduct and internal controls it expects of LCs in delivering best execution.

The [circular](#) reminds LCs that they should execute client orders on the best available terms, as delivering best execution is fundamental to market integrity and the protection of investors who rely on LCs to act in their best interests. This is particularly important in light of the increased speed and complexity of trading, as execution is now mainly automated and electronic and LCs offer multifaceted products and services including many with unique features.

The SFC also issued a [Report on the Thematic Review of Best Execution](#) to provide detailed observations from the thematic review and highlight good industry practices for LCs to take into consideration.

15. Process Review Panel for SFC Publishes Annual Report

The Process Review Panel ("PRP") for the SFC is an independent, non-statutory panel established by the Chief Executive to review the internal operational procedures of the SFC and to determine whether the SFC has followed its internal procedures for ensuring fairness and consistency.

The recently published [PRP 2016-17 annual report](#) sets out that the PRP conducted a comprehensive review of the internal processes and procedures of the SFC through 62 completed or closed cases under different areas of the work of the SFC. It made a number of observations and recommendations to the SFC for consideration, which would be conducive to the fair and consistent exercise of regulatory powers by the SFC and enhancing the SFC's transparency and accountability.

Legislation & Other Initiatives

16. The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Bill 2017 and the Companies (Amendment) Bill 2017

[The Anti-Money Laundering and Counter-Terrorist Financing \(Financial Institutions\) \(Amendment\) Bill 2017 and the Companies \(Amendment\) Bill 2017](#) were passed in the Legislative Council on 24 January 2018. New legislative requirements under the two amendment bills will come into effect from 1 March 2018. AMLO introduces new requirements on customer due diligence and record keeping for accountants and trust or corporate service providers ("TCSPs") that prepare for or carry out specified transactions for their clients. The Institute earlier consulted members on guidelines to help members comply with AMLO. Following the passage of the legislation, the final version of the guidelines will be gazetted soon.

17. Anti-Money Laundering Notices

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

- Companies Registry ("CR") has issued [anti-money laundering guidelines](#) for TCSPs and a [guideline for companies on the keeping of significant controllers registers](#); and various CR [forms](#) relevant to TCSPs have also been published.
- [Government notice 165](#): an updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- [Specially designated nationals and blocked persons list](#), published by the U.S. Treasury's Office of Foreign Assets Control. More details on the [Resource Centre of the Treasury](#).

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.

18. Inland Revenue (Amendment) (No. 7) Bill 2017

[The amendment bill](#) deals with legislative changes in relation to the two tier tax system. The Institute made a submission to the Legislative Council on 6 February 2018 and the Institute received [the Government's response](#) recently.

Taxation

19. Announcements by the Inland Revenue Department ("IRD")

Members may wish to be aware of the following matters:

- **A bilateral arrangement** between Hong Kong and France for automatic exchange of Country-by-Country Reports
- **Inland Revenue (Amendment) Ordinance 2018**, which makes certain technical amendments to the framework for automatic exchange of financial account information, has been gazetted
- The Stamp Duty (Amendment) Ordinance 2018, which has been gazetted, increases the ad valorem stamp duty ("AVD") rate on certain instruments executed on or after 5 November 2016 for dealing with residential properties to a flat rate of 15%. For Hong Kong permanent residents who change their residential property and want to claim partial refund of the AVD, the legislation also extends the time limit for disposal of the original property, to within 12 months after the date of conveyance of the new property. Click Stamping Circulars Nos. **02/2018** and **03/2018** for the new stamping arrangements, and the **FAQs and the illustrative examples** for AVD for further information.
- **Suspension of Service for Filing of Tax Return** - Individuals through eTAX
- **Bogus phone calls** purporting to be made by IRD
- **List of qualifying debt instruments** (as at 31 December 2017)
- **Stamp Duty statistics (December 2017)**

Useful Resources

20. Other Publications

- (i) HKEX has published:
 - **Key plans for 2018**
 - **2017 market statistics**
 - **Enforcement statistics for 2017**
 - **Enforcement newsletter for 12 months ended 31 December 2017**
 - Guidance letters and **press release** on:
 - Pricing flexibility for initial public offerings ("IPO") (**HKEX-GL-90-18**)
 - Reallocation of shares from placing tranche to the public subscription tranche in an IPO (**HKEX-GL-91-18**)
 - **FAQ** on Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules – added No. 023-2018 and amended No. 014- and 015-2017
 - **Report** on initial public offering applications, delisting and suspensions as at 31 January 2018
- (ii) **Companies Registry annual statistics for 2017**
- (iii) Other publications:
 - **2018-2019 Hong Kong Budget - KPMG China survey highlights and proposals** by KPMG
 - **21st CEO Survey - The Anxious Optimist in the Corner Office** by PwC
 - **Skills that help accounting professionals succeed alongside AI** by Journal of Accountancy
 - **10 Habits of Highly Effective CFOs** by CFO.com



- **10 ways SMEs can prevent cyberattacks** by CPI Financials
- **What Firms Should Know About Gen Z and Millennials** by Accounting Web
- **Small Practices: Leverage Traditional Services to Adapt to New Client Needs** by AICPA
- **Man vs The Machine: AI in accountancy** by AccountancyAge
- **Brace yourself for AI and blockchain** by Accounting Today
- **How AI Is Reshaping the Accounting Industry** by Forbes