



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@hki CPA.org.hk >. Click [here](#) for past issues.

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Standard Setting Developments

Local Updates

1. Invitations to Comment

The Institute is seeking comments on:

- **IESBA Exposure Drafts: Proposed Revisions to the Non-Assurance Services Provisions of the Code and Proposed Revisions to the Fee-Related Provisions of the Code by 3 April**
- **IASB Exposure Draft ED/2019/7 General Presentation and Disclosures by 22 May**
- **IASB Request for Information: Comprehensive Review of the IFRS for SMEs Standard by 12 June**

2. New Webpage on Goodwill and Impairment

The [new webpage on goodwill and impairment](#) provides details of the Institute's involvement in local and global discussions on accounting for goodwill, as well as upcoming activities.

3. New Webpage on Accounting for Crypto-assets

Crypto-assets, including cryptocurrencies such as Bitcoin, have generated a significant amount of interest in recent years. As activity related to crypto-assets has increased, one important issue is how to account for crypto-asset transactions. The Institute's [new webpage on crypto-assets](#) explains how the Institute is monitoring the developments of crypto-assets and participating in the global discussions on accounting treatments. It also provides relevant guidance and publications on accounting for crypto-asset transactions.

4. Illustrative Examples on Rent Concessions

Due to the recent market conditions, some landlords have chosen to lessen tenants'

difficulties by providing rent reduction or other means of subsidy. The Institute has issued a [publication](#) to illustrate the application of HKFRS 16 *Leases* to some commonly seen rent concession arrangements and highlight key factors to be considered for lessees and lessors when accounting for these transactions.

International Updates

5. Audit and Assurance

- IAASB [Auditor Reporting Project Update](#)
- IFAC [Article](#) on Achieving High-Quality Audits

6. Ethics

- IESBA December 2019 Meeting [Highlights](#)
- IFAC [Exploring the IESBA Code: Second Installment](#)
- IESBA [Proposed Revision to the Code Addressing Objectivity of Engagement Quality Reviewers](#)
- IESBA [Webinars](#) Explaining Proposed Revisions to International Independence Standards

7. IFRS Updates

- January 2020 IASB [update](#) and [podcast](#)
- IFRS 17 *Insurance* [podcast](#) covering the January IASB's meeting
- January 2020 IFRS for SMEs [update](#)
- January 2020 IFRS Interpretations Committee [update](#)

Technical Learning and Support

8. New Programme

Click on the title below to register for the e-seminar/workshop:

- [Workshop on IFRS/HKFRS 17 – General](#)

Insurance (Re-run) (2 March 2020)

- **Definition of a Business (Amendments to HKFRS 3 *Business Combinations*) - (Re-run)** (22 April 2020)
- **Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (E-seminar)**

Useful Resources

9. 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**

10. LinkedIn

Follow our **LinkedIn** for key developments in financial reporting, auditing and ethics.

Advocacy and Practice Development/ Member Support

Professional Accountants in Business

11. HKEX Publishes Results of Latest Review of Issuers' Annual Report Disclosure

Hong Kong Exchanges and Clearing (HKEX) has recently **published** a **report** on findings and recommendations from its review of issuers' annual reports for the financial year ended in 2018. HKEX was generally satisfied with its findings and recommends the following:

- Business review in Management Discussion and Analysis

Issuers should make clear disclosure about risk areas such as major regulatory or governmental policy changes, and an assessment on the impact to their business operations and previously announced business plans. Where applicable, issuers should also discuss the impact of the policy changes to their financial performance during the financial year.

- Financial statements with auditors' modified opinions

Issuers with audit modifications should actively engage their auditors to discuss their action plans with a view towards taking appropriate and effective actions to remove the modifications. On asset valuations of receivables and deposits, issuers should maintain a credit loss policy supported by historical loss information and adjusted by forward looking economic factors, and make impairments according to such policy.

- Material intangible assets, including goodwill

Issuers should ensure that the key assumptions applied in impairment testing are not overly optimistic and provide

sufficient information for investors to understand how issuers assess the reasonableness of key assumptions.

- Using non-GAAP financial measures

Issuers should ensure that the non-GAAP financial measures should be unbiased, presented with no greater prominence than GAAP measures, clearly defined, reconciled to the relevant amounts in the financial statements with sufficient explanation on adjusting items and presented consistently over time.

Members who are preparers of financial statements in particular for listed entities are encouraged to read the [report](#) and follow HKEX guidance to improve annual report disclosure to enhance transparency to stakeholders.

12. Digital Transformation in Finance Functions

ICAEW Tech Faculty's latest publication - [Digital transformation in finance functions: ASEAN and UK perspectives](#) - focuses on practical experiences, drawing on interviews with around 20 CFOs or digital transformation leads in finance functions from the UK, Singapore, Malaysia, Vietnam, Indonesia and Cambodia, and shares key lessons about the challenges of transformation in practice.

The findings indicate that the role of digital technology in finance is clear. It can be used to automate standard, repeatable processes and thereby free up staff to spend more time on higher-value work, such as critical thinking, problem-solving and business partnering.

The research also highlights a range of challenges that typically need to be addressed, and the report focuses on three important messages in this regard:

- The pace of technological and business change is creating an urgent need to build the capabilities and demand for higher value activities – it is no longer an option, finance teams must act now.

- People are the key to transformation, and finance functions needs to prioritise re-skilling, training and cultural change in their activities – partly around tech skills, but also business and commercial awareness and soft skills.
- Transformation is difficult, it doesn't happen overnight, and therefore small steps matter – focusing on marginal gains can prove helpful in managing the expectations of stakeholders and keeping staff motivated.

13. Future Ready: Accountancy Careers in the 2020s

ACCA has recently [published](#) a report entitled [Future ready: accountancy careers in the 2020s](#), which explores the major forces affecting the future of the accountancy profession. Apart from the major force transforming the world of work – technology, other forces include changing expectations of individuals in the workplace, shifting social norms and values, new types and levels of connectivity and demographics.

The report also tells the trends changing careers in accountancy and identifies the following five careers zones emerging, which represent broad areas of opportunity which individuals may develop their careers in.

- Assurance advocate – driving transparency and trust to meet growing regulatory demand
- Business transformer – supporting business transformation in the digital age
- Data navigator – organizational storytelling driving faster, more credible insights
- Digital playmaker – champions of data governance driving productivity and decision support processes
- Sustainability trailblazer – helping organization transform to accounting for the whole business

Small and Medium Practices

14. Key Factors in Evaluating Software Investment

28% of small- and medium-sized practices (SMPs) that responded to the recent [IFAC Global SMP Survey](#) are committed to invest 10% or more of their firm's practice revenue on technology. While investing in technology is important to SMPs, the exploration process can be daunting.

The [IFAC SMP Committee](#) has recently compiled a [five-step software investment evaluation process](#) for SMPs, including:

1. Evaluate the suppliers' business history and reputation
2. Evaluate the under-lying technologies that comes with the software
3. Evaluate the training and support options
4. Review the budget and evaluate costs and contract conditions. This will need to be in alignment with the firm's middle and longer-term strategies
5. Evaluate testimonials and references

There are also a number of articles and videos on the [Knowledge Gateway](#) highlighting the importance of technology as a new strategic advantage.

Corporate Finance

15. HKEX Seeks Views on Corporate Weighted Voting Rights Beneficiaries

HKEX released a [consultation paper](#) on 31 January 2020 to seek views on a proposal to allow corporate entities to benefit from weighted voting rights (WVR), subject to additional conditions and investor protection measures. Please refer to the [press release](#) for details.

The consultation explores the feasibility of whether an issuer can grant WVR to both individual and corporate beneficiaries, subject to specific suitability and eligibility criteria applicable to it.

The deadline for responding to the consultation paper is **1 May 2020**. Members are welcome to

submit any views or comments on the proposals in the consultation paper, together with their membership number and contact details, to the [Advocacy & Practice Development Department](#) on or before **27 March 2020**.

16. Hang Seng Indexes Company Limited Seek Views on Structure of Hang Seng Index

On 13 January 2020, the Hang Seng Indexes Company Limited (HSICL) released a [consultation paper](#) to seek views on the following areas:

1. Positioning of the Hang Seng Index (HSI)
2. Eligibility of WVRs for the HSI
3. Eligibility of Secondary-listed Companies for the HSI
4. Weighting of the Financial Sector in the HSI
5. Matters Related to the Hang Seng China Enterprises Index

In particular, HSICL is considering including listed companies with dual-class shares and WVR, most notably applicable to the Mainland technology giants.

The deadline for responding to the consultation paper to HSICL is **13 March 2020**.

Taxation

17. Institute Announces Proposals for the Budget 2020-21

The Institute held a media briefing on its [Tax Policy and Budget Proposals 2020-21](#), via video conferencing, on 10 February, 2020. In addition to explaining the Institute's forecast for a budget deficit in 2019-20, the hosts, Institute president, Johnson Kong, retiring chair of the Taxation Faculty Executive Committee (TFEC), KK So, and TFEC deputy chair, William Chan, announced 13 different measures aimed at maintaining the city's long-term competitiveness, helping relieve the financial pressures on citizens and businesses, and improving the environment, under the theme, "Together for a Better Hong Kong". The story generated 40 news reports from 18 different media outlets. See also the [press release](#).

18. Announcements by the Inland Revenue Department (IRD)

Members may wish to be aware of the following matters:

- [Gazettal of Inland Revenue \(Amendment\) \(Ship Leasing Tax Concessions\) Bill 2020](#)
- [Notifications of change of address:](#)
 - [Employers](#)
 - [Individuals](#)
- [Latest arrangements for IRD services](#)
- [Revision of departmental interpretation and practice notes:](#)
 - [DIPN18, DIPN35, DIPN36, DIPN37, DIPN56, DIPN57](#)
- [Interest on Tax Reserve Certificates](#)
- [Stamp Duty statistics \(January 2020\)](#)

Legislation & Other Initiatives

19. Anti-Money Laundering Notices

For the current lists of terrorists, terrorist associates and relevant persons/ entities under United Nations (UN) sanctions, members should refer to [the Institute's AML webpage](#) which is updated regularly. The United Nations Sanctions webpage of the [Commerce and Economic Development Bureau](#) contains consolidated lists of UN sanctions currently in force in Hong Kong.

20. Anti-Money Laundering/ Counter-Terrorist Financing (AML/CFT) Guidance

For mandatory guidelines and information from the Institute on the AML/CFT requirements for members, see the Institute's ["Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants"](#). Member practices may also find the Financial Action Task Force's (FATF) ["Guidance for a Risk-Based Approach for the Accounting Profession"](#) to be a useful reference when developing their own risk-based approach to applying the AML/CFT requirements.

Members who are licensed to provide trust or company services should also see the [Guideline on Compliance of Anti-Money](#)

Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers

, by Companies Registry.

The FATF published guidance, in October 2019, entitled, ["Best Practices on Beneficial Ownership for Legal Persons"](#). This paper aims to provide suggested solutions to the disclosure of beneficial ownership, supported by cases and examples of best practices from delegations of member jurisdictions of the FATF.

Members should ensure that they are aware of the [Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report](#) (in particular Chapter 6, covering designated non-financial businesses and professions), which indicates ML/TF risks and vulnerabilities in the Hong Kong market.

Useful Resources

21. Other Publications

- (i) The HKEX has published:
 - [Report](#) on initial public offering applications, delisting and suspensions as at 31 January 2020
- (ii) The SFC has published:
 - [Circular to private equity firms seeking to be licensed](#) and [Circular on the licensing obligations of family offices](#) as guidance on 7 January 2020
 - [Process Review Panel Report 2018-19](#)
 - Latest [SFC Compliance Bulletin: Intermediaries](#) emphasizing the importance of sound risk management for brokers and fund managers during times of market volatility
 - [SFC Regulatory Bulletin \(issue no. 4\)](#) provides an update on its front-loaded approach to address market quality and corporate conduct issues

- (iii) The Companies Registry **releases** statistics for 2019
- (iv) Other publications
 - **Economic Crime in a Digital Age** by ACCA & EY
 - **When it Comes to Talent Retention, Think Flexibly** by CPA Australia
 - **Performance and Financial Management: Key Factors for Small-And Medium-Sized Entities' Survival in a Volatile Environment** by IFAC SMP Committee
 - **3 tactics to become an agile CFO** by Financial Management
 - **Technical Accounting: The CFO's Secret Weapon** by CFO.com
 - **10 Steps for Getting Practice Growth Right** by Journal of Accountancy
 - **Invest Now, Save Later: The Best Business Strategy Against Cyber Attacks** by FTI Consulting
 - **AI and human soft skills will drive leadership priorities in 2020s** by ZDNET