



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

Hong Kong Updates

1. Implementing HKFRS 17 *Insurance Contracts*

The Institute has published a [pocket summary](#) on HKFRS 17 to provide insurers with a simple framework and general references for planning the implementation of the standard.

Summaries of the [20 March](#), [20 April](#) and [27 April](#) meetings of the Hong Kong Insurance Implementation Support Group are now available.

2. Invitations to Comment

The Institute is seeking [comments](#) on the IESBA Consultation Paper *Professional Skepticism – Meeting Public Expectations* by **13 July 2018**.

The IASB Exposure Draft ED/2018/1 *Accounting Policies Changes* is open for [comments](#) by **29 June 2018**. The proposed amendments are explained in this [overview](#) and [webcast](#).

International Updates

3. IFRS Updates

- [Report](#) on the spring 2018 International Forum of Accounting Standard Setters meeting
- [Summary](#) and [podcast](#) of the May meeting of the IASB Transition Resource Group for Insurance Contracts
- [Quiz](#) on the revised *Conceptual Framework*
- [April](#) and [May](#) IASB *Update*
- [May](#) IFRIC *Update*

4. IESBA Update

- [Podcast](#) of the IESBA March meeting

Useful Resources

5. 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](#)

6. [Linked in](#)

Follow our [LinkedIn](#) for key developments in financial reporting, auditing and ethics.

Advocacy and Practice Development/Member Support

Professional Accountants in Business

7. A Vision for the Finance Professional and the Finance Function

Following the IFAC Professional Accountants in Business ("PAIB") Committee meeting in March, the committee has recently [released a report](#) highlights the key messages arising from the meeting. The agenda of the meeting was framed around the key elements of developing a vision and roadmap for the finance professional and finance function, and provided an update on current initiatives of the committee.

8. HKEX Reviews Listed Issuers' Implementation of ESG Reporting Guide

On 18 May, Hong Kong Exchanges and Clearing ("HKEX") [published](#) the findings of its review of listed issuers' Environmental, Social and Governance ("ESG") disclosures in a report entitled, [Analysis of Environmental, Social and Governance Practice Disclosure in 2016/2017](#). The review involved analyzing disclosures made by 400 randomly selected issuers with financial year-end dates of 31

December 2016, 31 March 2017 and 30 June 2017.

HKEX also recommends the inclusion of the following key information in listed issuers' ESG reports:

- The issuer's or the board's commitment as well as the management's approach to ESG and how they relate to the issuer's business.
- The board's evaluation and determination of ESG risks and how it ensures that appropriate and effective ESG risk management and internal control systems are in place.
- The process for stakeholder engagement, which is central to materiality assessment and enables the company and its directors to communicate with their stakeholders.

9. HKEX Reviews Listed Issuers' Financial Reports

On 1 June, HKEX **published** a report summarizing key findings from its review of 100 periodic financial reports released by listed issuers between February 2017 and April 2018.

The **report** specially highlights the importance of the following:

- Providing investors with a meaningful management commentary
- Judgements and estimates
- Assessing impairment of tangible and intangible assets (including goodwill)
- Accounting for acquisitions
- Impact of applying key HKFRSs in issue but not yet effective
- New auditors' reporting

Members, especially those responsible for preparing financial reports of listed issuers, are encouraged to read the report.

Small & Medium Practitioners

10. IFAC Guide to Practice Management Helps SMPs Thrive in the Global Economy

IFAC has recently **released** an updated (4th edition) **Guide to Practice Management for Small- and Medium-Sized Practices Fourth Edition** (the "Guide") to help SMPs adopt good practices to better serve their clients in a digital, globalized world. The Guide helps SMPs improve their management and operational efficiency and supports their sustainability and success.

The Guide adds a new module on "Leveraging Technology", which covers how technology developments are fundamentally changing the way organizations operate and recognizes that SMPs must adapt to service their clients that utilize technology. Relevant topics such as developing a technology strategy, hardware and software options, technology risks, new and emerging technologies, and leveraging technology for practice innovation are covered.

Corporate Finance

11. Consultation Conclusions on Capital Raisings by Listed Issuers

On 4 May, HKEX **published** its **consultation conclusions** on **Capital Raisings by Listed Issuers** to restrict abusive practices relating to capital raisings by listed issuers and protect the interests of minority shareholders. As reported in **TechWatch no. 182** (item 11), the Institute made a submission responding to HKEX's proposals.

The changes to the Listing Rules include the rules on:

- Highly dilutive capital raisings
- Rights issues and open offers
- Placing of warrants or convertible securities under general mandate

There are also other rule amendments to enhance disclosure of the use of proceeds from equity fundraisings, and to impose an additional

requirement for subdivisions and bonus issues of shares to ensure an orderly market.

The Listing Rule amendments will become effective on 3 July 2018. Also read the [Frequently Asked Questions](#) ("FAQ") (Q24-2018 to Q27-2018) for further explanation.

12. Consultation Conclusions on Delisting and Other Rule Amendments

On 25 May, HKEX [published](#) its [consultation conclusions on Delisting and Other Rule Amendments](#) to establish a framework to facilitate timely delisting of issuers that no longer meet the continuing listing criteria and provide certainty to the market on the delisting process. As reported in [TechWatch no. 182](#) (item 12), the Institute made a submission responding to HKEX's proposals.

Changes to the Listing Rules include:

- Main Board Listing Rules
 - Add a separate delisting criterion to allow HKEX to delist an issuer after a trading suspension of 18 continuous months.
 - Allow HKEX to (i) publish a delisting notice stating its right to delist an issuer if the issuer fails to resume trading within the period specified in the notice, or (ii) delist the issuer immediately in appropriate circumstances.
 - Remove Practice Note 17, which sets out a three stage delisting procedure for issuers without sufficient operations or assets.
- GEM Listing Rules
 - Align the delisting process with that of the Main Board except for allowing HKEX to delist a GEM issuer after a trading suspension of 12 continuous months.

The new delisting process and Listing Rule amendments will become effective on 1 August

2018. Also read the [guidance letter](#) on long suspension and delisting (HKEX-GL95-18) which provides guidance relating to the new delisting framework.

13. SFC Regulatory Bulletin: Listed Corporations

On 23 May, the Securities and Futures Commission ("SFC") [published](#) the second edition of its [Regulatory Bulletin: Listed Corporations](#) to provide an update on how the SFC exercises its power under the Securities and Futures (Stock Market Listing) Rules ("SMLR") to fulfill its statutory objective of protecting investors.

The newsletter highlights some of the SFC's actions to tackle market misbehaviour in the nine months ended 31 March 2018. Case studies are also included to illustrate the SFC's early intervention in serious corporate cases as well as the close relationship between the use of its regulatory tools under the SMLR and its enforcement actions against licensed firms and listed companies.

14. SFC Consultation Conclusions

i. New OFC Rules and OFC Code

On 18 May, the SFC released [consultation conclusions](#) on the proposed Securities and Futures (Open-ended Fund Companies) Rules and Code on Open-ended Fund Companies, which set out detailed legal and regulatory requirements for the new open-ended fund company ("OFC") structure. This will enable investment funds to be established in corporate form in Hong Kong, in addition to the current unit trust form.

The SFC will implement the proposals set out in the [consultation paper](#) with certain modifications and clarifications. These include streamlining the approval requirements for private OFCs and setting out a one-stop arrangement for the establishment, ongoing corporate filings and termination of OFCs.

The OFC regime is targeted to come into effect on 30 July 2018.

ii. Prescribing professional investors

On 18 May, the SFC also released **consultation conclusions** on proposed amendments to the **Securities and Futures (Professional Investor) Rules** to standardize the rules for prescribing professional investors. The amended rules are expected to come into effect on 13 July 2018.

The amendments allow portfolios held in joint accounts with non-associates and in investment corporations wholly-owned by an individual to count towards meeting the threshold to qualify as a professional investor.

The categories of professional investors will be expanded to include corporations which have investment holding as their principal business and are wholly-owned by one or more professional investors, as well as corporations which wholly own another corporation which is a qualified professional investor.

In addition, alternative forms of evidence will be allowed to demonstrate qualification as a professional investor.

Taxation

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

Members may wish to be aware of the following matters:

- Passage of amendment bill to implement **concessionary tax measures**
- An advance ruling case **on section 18E of the Inland Revenue Ordinance**
- A Legislative Council question **on unsold first-hand private residential units**
- **A tax agreement** concluded between Hong Kong and Finland
- Gazettal of
 - **Inland Revenue (Amendment) (No.3) Bill 2018**, providing for

enhanced tax deduction for expenditure incurred by enterprises on qualifying research and development activities

- **Inland Revenue (Amendment) (No.4) Bill 2018**, providing for deductions for eligible health insurance products under the voluntary health care insurance scheme
- **Inland Revenue (Amendment) (No.5) Bill 2018**, providing for further concessions in the 2018 budget, including (a) to allow husbands and wives the option of electing for personal assessment separately and (b) to allow enterprises to claim tax deduction for capital expenditure incurred for procuring environmental protection installations in full in one year instead of over five
- **subsidiary legislation for open-ended fund companies**
- Notifications about
 - **tax obligations of taxpayers and employers**
 - **business registration**

16. Annual Meeting with the IRD

The annual meeting between representatives of the Institute's Taxation Faculty Executive Committee and the IRD took place on 18 May 2018. At the meeting, the IRD confirmed the due dates for lodging profits tax returns for the year of assessment 2017-18. These are highlighted for members' attention:

Accounting date	Extended due date	Further extended due date (if opting for e-filing)
"N" Code	3 May 2018 (no extension)	17 May 2018
"D" Code	15 August 2018	29 August 2018
"M" Code	15 November 2018	29 November 2018

Accounting date	Extended due date	Further extended due date (if opting for e-filing)
"M" Code (current year loss cases)	31 January 2019	31 January 2019 (same as paper returns)

17. Institute's recent tax submissions

The Institute's Taxation Faculty has commented on [Inland Revenue \(Amendment\) \(No. 2\) Bill 2018](#), which expands of the scope of specified intellectual property rights eligible for tax deductions on capital expenditure, and [proposals to remove ring-fencing features from the tax regimes for funds](#).

Legislation & Other Initiatives

18. Anti-Money Laundering Notices

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

- **Government notice (extraordinary) 26:** An updated list of terrorists and terrorist associates has been specified under the United Nations Sanctions (Democratic People's Republic of Korea) Regulation.
- **Government notice (extraordinary) 28:** An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **High-risk and non-cooperative jurisdictions:** In May, the Financial Action Task Force ("FATF") issued one document:
 - **CFATF Public Statement and Notice of exiting the Follow-up process May 2018**, the Caribbean Financial Action Task Force (CFATF) Plenary agreed to remove Haiti from its special monitoring process given the forthcoming 4th Round Mutual Evaluation of Haiti. Saint Vincent and the Grenadines

made significant progress in addressing the deficiencies identified in the 3rd round Mutual Evaluation and have successfully exited the follow-up process.

- **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 mandatory guidance and information on the AML/CFT requirements for members see the Institute's [Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants](#).

For members who are operating licensed trust and company service providers ("TCSPs") or who need to apply for a TCSP licence, more information is available on the website of the [Registry for Trust and Company Service Providers](#). TCSPs who hold a deemed licence under the transitional provisions in the new section ZQ of the [Anti-Money Laundering and Counter-Terrorist Financing Ordinance, \(Cap. 615\)](#) (as introduced by the [Anti-Money Laundering and Counter-Terrorist Financing \(Financial Institutions\) \(Amendment\) Ordinance 2018](#)), applications for a TCSP licence need to be made by 28 June 2018.

Useful Resources

19. Other Publications

- (i) HKEX has published:
 - New guidance letter on long suspension and delisting ([HKEX-GL95-18](#))
 - New FAQ on:
 - calculation of value dilution ([Q24-2108 to Q27-2018](#))
 - scope of "pledging of shares" under Rule 13.17 ([Q29-2018](#))
 - Revised [FAQ Series 1](#) relating to Corporate Governance and Listing Criteria Issues (No. 49)

- Revised Listing Decision with respect to whether HKEX would disregard the consideration ratio for the acquisition and accept the proposed alternative size test (**HKEX-LD83-1**)
 - **Report** on initial public offering applications, delisting and suspensions as at 31 May
- (ii) SFC has published:
- Regulatory Bulletin : Listed Corporations (**Issue No. 2 May 2018**)
 - Compliance Bulletin: Intermediaries (**Issue No. 2 May 2018**)
 - A speech entitled **Regulation for an Evolving Market** by Brian Ho, Executive Director, Corporate Finance Division
 - **Adoption of IOSCO’s enhanced standard for cross-border enforcement cooperation**
- (iii) Financial Services Development Council has published:
- Research report entitled **Maritime Leasing Paper**, which sets out key recommendations for developing a significant maritime financing and leasing industry in Hong Kong
 - **An overview of Hong Kong Financial Services Industry**
- (iv) Other publications:
- **Blockchain: Impact on Business, Finance and Accounting** by IFAC PAIB Committee
 - **Communicating value and quality with price** by IFAC SMP Committee
- **Non-disclosure of conflicts of interest may be a crime – procurement staff beware** by ONC Lawyers
 - **5 things you need to know about the new international ethics code** by Journal of Accountancy
 - **From the C-suite to a Board Seat: Robert Hull, Chairman, SPX FLOW Inc.** by Deloitte
 - **The key skills finance needs to thrive** by Financial Management
 - **AI and automation: The new unstoppable reality** by CPA Canada
 - **Simplifying auditing standards for small or non-complex entities – Exploring possible solutions** by Accountancy Europe
 - **6 steps to an effective social media presence** by In the Black