



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.

Contents

Financial Reporting, Auditing and Ethics

New!

1. [New Technical Learning and Support Programme in June](#)

Members' Handbook

2. [Handbook Updates No. 126 & 127](#)

Financial Reporting

3. [HKICPA Financial Reporting Standards Committee](#)
4. [Invitations to Comment on IASB ED](#)
5. [Institute Comments on Consultation Documents](#)
6. [Integrated Reporting Consultation](#)

Audit & Assurance

7. [HKICPA Auditing and Assurance Standards Committee](#)
8. [Auditing and Assurance Technical Bulletin 3](#)

International Meetings

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

Useful Resources

13. [Publications](#)

Comment Due Dates

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

14. [Evaluating and Improving Internal Control in Organizations](#)
15. [COSO to Issue Updated Framework in May](#)

Corporate Finance

16. [HKEx Consultations on Connected Transaction Rules](#)
17. [SFC's Review of the New Statutory Regime on Inside Information Disclosure](#)

Restructuring and Insolvency

18. [Consultation on Legislative Proposals to Improve Hong Kong's Corporate Insolvency Law](#)
19. [Official Receiver's Replies to LegCo Finance Committee](#)

Taxation

20. [Announcements by the Inland Revenue Department](#)

Legislation & Other Initiatives

21. [Second Batch of Subsidiary Legislation under the New Companies Ordinance Gazetted](#)
22. [Latest Notices on Anti-Money Laundering and Terrorist Financing](#)

Useful Resources

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

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Financial Reporting, Auditing and Ethics

New!

1. New Technical Learning and Support Programme in June

The Institute will run a series of technical update evenings ("TUE") and workshops for accounting, auditing and ethics in June 2013 as follows:

- **TUE – Guardian Role of Professionals in Upholding Ethical Governance**
- **HKFRS for Private Entities Workshop**
- **Workshop on Deferred Taxes**
- **Workshop on issues in Auditing PRC companies**

Information on each course, including registration details, can be found by clicking on the above event titles.

Members' Handbook

2. Handbook Updates No. 126 & 127

- (i) **Update No. 126** contains HKSAA 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*.

New HKSAA 3420 deals with reasonable assurance engagements undertaken by a practitioner to report on a responsible party's compilation of pro forma financial information included in a prospectus. The HKSAA applies where:

- Such reporting is required by securities law or the regulation of the securities exchange in the jurisdiction in which the prospectus is to be issued; or
- This reporting is generally accepted practice in such a jurisdiction.

In Hong Kong, Main Board Listing Rules 4.29/ GEM Listing Rules 7.31 ("Listing Rules") requires that where an issuer includes pro forma financial information in any document, that information must comply with the Listing Rules and a report in the terms of the Listing Rules must be included in the relevant document. Additional guidance for the relevant reporting requirements is included in Appendix 2 to the HKSAA.

HKSAA 3420 is effective for assurance reports dated on or after 1 July 2013.

Also, HKSIR 300 has been updated to reflect that it will be superseded by HKSAA 3420 for reports dated on or after 1 July 2013.

- (ii) **Update No. 127** contains Statement 1.500 (Redrafted) *Continuing Professional Development*. Statement 1.500 prescribes the continuing professional development ("CPD") requirements with which members of the Institute must comply for annual membership renewal in accordance with Section 28(2)(c) of the Professional Accountants Ordinance. Such requirements contribute to the profession's objective of providing high-quality services to meet the needs of the public, including clients and employers. The Statement is redrafted following from the International Accounting Education Standards Board's project to redraft International Education Standards. Statement 1.500 (Redrafted) is effective for CPD reporting periods beginning on or after 1 December 2013.

Financial Reporting

3. HKICPA Financial Reporting Standards Committee

The **FRSC minutes** of the meeting held on 12 December 2012 covered the following items:

- Report on various international meetings
- IVSC Discussion Paper: Valuation of Trade Related Property

- IASB and IVSC Exposure Drafts
- Matters related to the rewrite of Companies Ordinance
- IASB Presentation on Insurance Contracts Project
- Proposed Revisions to Main Board Listing Rules – Appendix 16

4. Invitations to Comment on IASB ED

- (i) IASB Exposure Draft ("ED") of *Defined Benefit Plans: Employee Contributions (Proposed Amendments to IAS 19)*

The Institute has issued an **Invitation to Comment** on IASB ED of *Defined Benefit Plans: Employee Contributions (Proposed Amendments to IAS 19)*, with comments requested by **26 June 2013**.

As stated in the IASB's press release, accompanying the ED, the IASB is responding to concerns raised about the complexity of applying certain requirements of IAS 19 *Employee Benefits*. These concerns related specifically to the accounting for contributions from employees and third parties to defined benefit plans.

The objective of the proposed amendments is to provide a more straight-forward alternative for this accounting when the contributions payable in a particular period are linked solely to the employee's service rendered in that period. The proposed guidance would be applicable, for example, to accounting for employee contributions that are calculated according to a fixed percentage of salary.

- (ii) IASB ED of *Regulatory Deferral Accounts*

The Institute has issued an **Invitation to Comment** on IASB ED of *Regulatory Deferral Accounts*, with comments requested by **31 July 2013**.

As stated in the IASB's press release, accompanying the ED, many jurisdictions applying IFRS have industry sectors that are

subject to rate regulation, such as the transportation and the utilities sectors. Rate regulation can have a significant impact on the timing and amount of an entity's revenue. Existing IFRS does not provide any specific guidance for rate regulated activities.

In response to feedback from its agenda consultation, the IASB has initiated a project to consider whether the IASB should develop specific guidance for Rate-regulated Activities and, if so, what information about the consequences of rate regulation would be most useful for users of financial statements. At this stage, the IASB is proposing an interim Standard that would allow entities to preserve the existing accounting policies that they have in place for rate-regulated activities with some modifications designed to enhance comparability.

5. Institute Comments on Consultation Documents

- (i) IASB ED of *Annual Improvements to IFRSs 2011-2013 Cycle*

The Institute sent a **comment letter** to the IASB on its ED of *Annual Improvements to IFRSs 2011-2013 Cycle*.

The Institute generally agreed with most proposals in the ED but suggested the proposed transition provision on the amendments to IFRS 3 *Business Combinations* should be amended to make it consistent with the way in which the effective date provisions were expressed in IFRS 3 when issued in 2008.

- (ii) IASB ED of *Recoverable Amount Disclosures for Non-Financial Assets (Proposed Amendments to IAS 36)*

The Institute sent a **comment letter** to the IASB on its ED of *Recoverable Amount Disclosures for Non-Financial Assets (Proposed Amendments to IAS 36)*.

The Institute supported the proposed amendments to IAS 36 *Impairment of Assets* as it better reflected the IASB's

intentions without reducing the relevance and understandability of financial information.

The Institute noted that in recent months especially, the IASB had seen the need to propose a number of specific, limited amendments to various standards, often with very short comment periods. With the seemingly increasing frequency of these 'patch-ups' subsequent to the promulgation of a substantive new or revised standard, it has caused commentators to ponder whether the due process followed in respect of issuing the new or revised standard was sufficiently robust enough to have prevented the need for the subsequent patch-up. The Institute would be interested to know whether the IFRS Due Process Oversight Committee had considered this matter and, if they shared these concerns, whether there may be a way of proactively dealing with this type of situation in the future, such as may be the case with a field-testing programme and/or fatal flaw reviews of new or revised standards prior to issuance.

(iii) IASB ED of *Equity Method: Share of Other Net Asset Changes*

The Institute sent a [comment letter](#) to the IASB on its ED of *Equity Method: Share of Other Net Asset Changes*.

The Institute agreed that diversity in practice exists on how investors recognized their share of the changes in the net assets of an investee that were not recognized in profit or loss or other comprehensive income of the investee, and were not distributions received ("other net asset changes"). However, the Institute did not believe that a short-term solution should be introduced without having a thorough debate about the conceptual issues related to the equity method of accounting. The Institute was concerned that the proposed approach to require an investor to recognize directly in equity its ownership interest of the investee's other net asset changes would create inconsistencies with existing IFRS.

6. Integrated Reporting Consultation

Hong Kong was recently one of 14 host locations for the launch of the International Integrated Reporting Council's [consultation draft of the International Integrated Reporting Framework](#), a new reporting model for business, with comments requested by **15 July 2013**.

Audit & Assurance

7. HKICPA Auditing and Assurance Standards Committee

The [AASC minutes](#) of the meeting held on 25 February 2013 covered the following items:

- AASC Work Plan 2013 and Update from Working Groups
- Practice Note ("PN") 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal"
- Revised PN 620.2 "Communication between the Auditor and the Insurance Authority"
- Revised PN 810.1 "Insurance Brokers – Compliance with the Minimum Requirements specified by the Insurance Authority under Sections 69(2) and 70(2) of the Insurance Companies Ordinance"
- Revision of Financial Statements
- ED on ISA 720 (Revised) "The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon"
- Development of guidance on separate financial statements

8. Auditing and Assurance Technical Bulletin 3

The Institute has published a [Technical Bulletin](#) to provide practical guidance on

implementation of HKSIR 400 "Comfort Letters and Due Diligence Meetings".

The Institute had previously published revised HKSIR 400 ("HKSIR 400 (Revised)") in October 2011. The revisions were effective for investment circulars or other offering documents dated on or after 1 January 2012. HKSIR 400 was then revised again in December 2012, primarily to update the comfort letter examples. The December 2012 revisions were effective upon issuance. Among other changes, HKSIR 400 (Revised) provides that limited (negative) assurance can now be given by reporting accountants in a comfort letter in respect of subsequent changes in specified financial statement items during the "change period". In addition, HKSIR 400 (Revised) clarifies that reporting accountants should follow HKSIR 400 (Revised) when they are requested to issue a comfort letter for debt offerings.

With the issue of HKSIR 400 (Revised), certain practical issues have arisen in respect of the implementation of the revised standard. This technical bulletin is intended to address, and provide practical guidance on, those issues and serve as a reminder of certain basic principles that reporting accountants (including independent accountants reporting in connection with a debt offering) should keep in mind when conducting their engagement to issue a comfort letter or to take part in a due diligence meeting.

International Meetings

9. International Accounting Standards Board

The IASB met on 23-25 April 2013, and discussed the following topics:

- Comprehensive review of the *IFRS for SMEs*
- Recoverable Amount Disclosures for Non-Financial Assets
- Annual Improvements (2012-2014 Cycle)
- Conceptual Framework

- Financial Instruments: Hedge Accounting
- Post-implementation review of IFRS 8 *Operating Segments*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Interpretation on Levies
- IFRS IC Update
- Annual Improvements to IFRSs 2010-2012 Cycle and 2012-2014 Cycle
- Update on investor outreach

Click to view the IASB Update on the meeting of [23-25 April](#). The IASB next meets in May 2013.

10. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in May 2013. Click [here](#) for details.

11. International Auditing and Assurance Standards Board

The IAASB next meets in June 2013. Click [here](#) for details and previous meeting summary.

12. International Ethics Standards Board for Accountants

The IESBA next meets in June 2013. Click [here](#) for details and previous meeting summary.

Useful Resources

13. Publications

The following are publications on various topics:

- (i) [Quality assurance annual report 2012](#) - HKICPA
- (ii) IFRS updates:
 - [Update](#) - Ernst & Young
 - [Newsletter](#) - PwC

- (iii) **Illustrative interim financial statements** - Ernst & Young
- (iv) Disclosure checklists:
 - **Disclosure checklist** - Ernst & Young
 - **Example disclosures for interests in unconsolidated structured entities** - Ernst & Young
- (v) **Interview with IESBA Chairman** on the role of ethics in restoring confidence

Comment Due Dates

11 June 2013: IASB ED of *Financial Instruments: Expected Credit Losses*

26 June 2013: IASB ED of *Defined Benefit Plans: Employee Contributions (Proposed Amendments to IAS 19)*

31 July 2013: IASB ED of *Regulatory Deferral Accounts*

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

14. Evaluating and Improving Internal Control in Organizations

The Professional Accountants in Business Committee of International Federation of Accountants ("IFAC PAIBC") has issued an **Executive Summary** to its new International Good Practice Guidance, **Evaluating and Improving Internal Control in Organizations**. It summarizes the principles and the importance of effective systems of internal control, and explains some of the pitfalls that can be avoided.

15. COSO to Issue Updated Framework in May

The Committee of Sponsoring Organizations of the Treadway Commission has approved its updated *Internal Control – Integrated Framework: 2013* and expects to issue it on 14 May. Click [here](#) for more information.

Corporate Finance

16. HKEx Consultations on Connected Transaction Rules

Hong Kong Exchanges and Clearing ("HKEx") **published** two consultation papers on 26 April to seek views on proposed changes to the Listing Rules in relation to:

- **connected transactions**; and
- **aligning the definitions of connected person and associate**.

The consultation on connected transactions seeks views on proposals to refine, simplify, improve clarity and address anomalies in the Listing Rules applicable to connected transactions, while the other seeks views on aligning the meaning of connected persons and associates in different parts of the Listing Rules. The deadline for response is **26 June**.

17. SFC's Review of the New Statutory Regime on Inside Information Disclosure

A review by the Securities and Futures Commission ("SFC") of corporate announcements **showed** that after the statutory inside information disclosure regime came into effect on 1 January 2013, the total number of announcements on inside information made by listed corporations, in the first three months of 2013, was up 43% compared to that of the corresponding period in 2012.

Three **FAQs** have been released by the SFC to help listed companies better understand the application of the inside information disclosure provisions. The FAQs:

- advise listed corporations not to use the heading "Voluntary Announcement", but, rather, a heading that accurately reflects the substance of the information concerned;
- clarify the content requirements for an inside information announcement; and
- clarify the statutory obligation of dual-listed companies under the new regime in relation to disclosing inside information in "overseas regulatory announcements".

Restructuring and Insolvency

18. Consultation on Legislative Proposals to Improve Hong Kong's Corporate Insolvency Law

On 16 April, the government launched a three-month **public consultation** on legislative proposals to improve the corporate insolvency and winding-up provisions of the Companies Ordinance, with comments requested by 15 July.

The proposals cover the following five aspects of the winding-up process, namely:

- (i) the commencement of winding-up;
- (ii) the appointment, powers, vacation of office and release of provisional liquidators and liquidators;
- (iii) the conduct of the winding-up process;

- (iv) voidable transactions; and
- (v) the investigation during winding-up, offences antecedent to or in the course of winding-up and powers of the court.

Speakers from Financial Services and the Treasury Bureau and the Official Receiver's Office ("ORO") explained the proposals at a **Restructuring and Insolvency Faculty ("RIF") seminar** on the evening of 9 May.

The proposals are being reviewed by the RIF's Technical sub-committee. Members of the Institute who wish to submit views to the sub-committee can do so by emailing, under the heading "Consultation on Corporate Insolvency Law", to <rif@hkicpa.org.hk>, by **15 June 2013**.

19. Official Receiver's Replies to LegCo Finance Committee

The OR's replies, in response to initial written questions raised by members of the Legislative Council ("LegCo") Finance Committee on examination of the ORO's 2013-14 estimated expenditure, have been posted onto the **ORO website**. The replies cover a variety of subjects, for example:

- estimated numbers of cases to be outsourced to private practitioners;
- how the ORO monitors the effectiveness and quality of the outsourced work;
- information about the ORO's departmental records management work;
- number, type of complainants (i.e. creditor or bankrupt) and the subject matter of complaints against private practitioners that the ORO has received in each of the past five years and how the complaints were handled;
- analysis of age distribution, gender, the amount of indebtedness, sources of debt, distributions of monthly income and residence type of bankrupts over the past 5 years.

Taxation

20. Announcements by the Inland Revenue Department

Members may wish to note:

- **A notice** issued on matters under the Employer's Returns of Remuneration and Pensions.
- Press releases regarding the gazettal of the **Inland Revenue (Amendment) Bill 2013** and **Inland Revenue (Amendment) (No. 2) Bill 2013**. The former will allow Hong Kong to enter into tax information exchange agreements ("TIEAs") and enhances the existing exchange of information arrangements under comprehensive avoidance of double taxation agreements. The latter will implement the concessionary revenue measures proposed in the 2013-14 Budget.

Members of the Institute who wish to submit views on the legislation on TIEAs can do so by emailing
< commentletters@hkipa.org.hk >

- **A list of qualifying debt instruments** as at 31 March 2013.
- Latest developments on comprehensive double taxation agreements ("CDTAs"):
 - **CDTA** has been signed with Guernsey.
 - **Three orders** have been gazetted relating to DTAs with Canada, Jersey and Austria.
 - **DTA with Malaysia** is in force and applies to years of assessment starting on or after 1 April 2013.

Legislation & Other Initiatives

21. Second Batch of Subsidiary Legislation under the New Companies Ordinance Gazetted

Following the introduction of the first batch comprising five pieces of subsidiary legislation

for the implementation of the new Companies Ordinance in early February 2013, reported in **TechWatch Issue 124** (item 17(ii)), the following two pieces of subsidiary legislation were gazetted on 22 March and tabled in LegCo on 27 March for negative vetting:

- **Companies (Disclosure of Information about Benefits of Directors) Regulation**
- **Companies (Revision of Financial Statements and Reports) Regulation**

These two Regulations prescribe the detailed requirements about benefits to directors to be disclosed in the notes to financial statements, and matters concerning the revision of reporting documents. **A report** was made to the LegCo House Committee on 3 May 2013 by the subcommittee on subsidiary legislation under the Companies Ordinance.

22. Latest Notices on Anti-Money Laundering and Terrorist Financing

Members may wish to note that the following notices and publications in relation to combating money laundering/terrorist financing:

- **Government notice 1494**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2013.
- **Government notice 1495**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Liberia) Regulation 2013.
- **Government notice 2077**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic People's Republic of Korea) Regulation.
- **Legal notice 54**: The United Nations Sanctions (Democratic People's Republic of Korea) (Amendment) Regulation 2013 has been published in the Gazette.
- **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 anti-money laundering, 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

23. Library Resources

Featured titles and **new books** of reference value to members 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.

24. Other Publications

The following articles/publications on topical issues may be of interest to members:

(i) HKEx has published:

➤ Listing decisions in relation to:

- whether a listed issuer's proposed acquisition of an interest in the company was a reverse takeover ([HKEx-LD57-2013](#))
- whether Rule 14.06(6)(a) would be waived so that the proposed acquisition (a very substantial acquisition based on the size tests) by a listed issuer, which is currently under the delisting procedures, of a company, the principal business of which is similar to that of the listed issuer, would not be classified as a reverse takeover ([HKEx-LD58-2013](#))
- whether Rule 14.06(6)(a) would be waived so that a listed issuer's proposed acquisition of certain

assets from its executive director and substantial shareholder would be classified as a very substantial acquisition, rather than a reverse takeover ([HKEx-LD59-2013](#))

- whether a listed issuer's proposed alternative revenue ratio for classifying certain continuing connected transactions with a company, which is a substantial shareholder of certain subsidiaries of the listed issuer's subsidiary, is considered to be acceptable ([HKEx-LD60-2013](#))
 - whether a listed issuer's proposed alternative revenue ratio for classifying transactions under Chapters 14 and 14A is considered to be acceptable ([HKEx-LD61-2013](#))
 - whether a proposed amendment would be considered as a material change to the terms of the Acquisition agreement (a very substantial acquisition) and should be made conditional on shareholders' approval ([HKEx-LD62-2013](#))
 - whether the annual review and reporting requirements for a continuing connected transaction between a listed issuer and a company indirectly owned as to 30% by its independent non-executive director would be waived ([HKEx-LD63-2013](#))
 - whether Labuan is considered to be an acceptable jurisdiction of an issuer's incorporation ([HKEx-LD64-2013](#))
- An updated listing decision in relation to the company secretary of a PRC issuer not possessing relevant professional qualifications ([HKEx-LD35-1](#), updated in April 2013)

- A guidance letter in relation to liquidity arrangements for issuers seeking to list by introduction where the securities to be listed are already listed on another stock exchange ([HKEx-GL53-13](#))
 - [Report](#) on IPO applications, delisting and suspensions (as at 30 April)
- (ii) Publications on board diversity by Community Business:
- [Standard Chartered Bank women on boards: Hang Seng Index 2013](#)
 - [Improving governance through board diversity: a guide for companies listed in Hong Kong](#)
- (iii) Articles on corporate governance by Deloitte:
- [Director 360° – global report, second edition: degrees of progress](#)
 - [Audit committee brief – charting the course: audit committee annual activities](#)
 - [The board's role in cultivating a risk-intelligent culture](#)