



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

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# Financial Reporting, Auditing and Ethics

## New!

### 1. The 7th IFRS Regional Policy Forum

The 7th IFRS regional policy forum was held for the first time in Hong Kong and hosted by the Institute on 5-6 June 2013, with the theme "A journey to better financial reporting". 190 participants from around the world attended and exchanged views on global financial reporting. Professor K.C. Chan, Secretary for Financial Services and the Treasury, gave a keynote address. Other prominent speakers included Hans Hoogervorst, chairman of IASB, Kevin Stevenson, chairman of Asian-Oceanian Standard-Setters Group and Yang Min, Director-General of Accounting Regulatory Department, Ministry of Finance.

Click [here](#) for the agenda, speeches, presentations, communiqué and photos of the 7th IFRS Regional Policy Forum.

### 2. New Guide to Quality Control

The Institute's new edition of [A Guide to Quality Control](#) has been published.

The Guide is aimed at helping public accounting firms design, document, implement and maintain a system of quality control. It provides for different sizes of practice sample policies and procedures that can be used as a starting point in developing a customized quality manual for the firm.

## Members' Handbook

### 3. Handbook Update No. 130

[Update No. 130](#) contains the issuance of *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to HKAS 36 *Impairment of Assets*) and HK(IFRIC) – Int 21 *Levies*.

When HKFRS 13 *Fair Value Measurement* was issued, a consequential amendment had been made to HKAS 36 which required the disclosure of information about the recoverable amount of

impaired assets if that amount is based on fair value less costs of disposal.

However, the unintended result of those amendments were that an entity would instead be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with definite useful lives. Consequently, this amendment aligns the disclosure requirements in HKAS 36 with the original intention.

HK(IFRIC) – Int 21 addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognize a liability to pay a levy.

This Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The amendments to HKAS 36 and HK(IFRIC) – Int 21 are effective for annual periods beginning on or after 1 January 2014.

## Financial Reporting

### 4. Invitations to Comment on IASB ED

- (i) IASB Exposure Draft ("ED") of *Insurance Contracts*

The Institute has issued an [Invitation to Comment](#) on IASB ED of *Insurance Contracts*, with comments requested by **25 September 2013**.

As stated in the IASB's press release, the ED builds upon proposals published in 2010, and reflects feedback received during the extensive public consultation period that followed the publication of those proposals. The revised proposals aim to provide a consistent basis for accounting for insurance contracts and to make it easier for users of financial statements to understand how insurance contracts affect an entity's financial position, financial

performance and cash flows. While the model presented in the 2010 ED was broadly supported, some specific issues were raised that the IASB has sought to address. The revised proposals respond to those issues by introducing enhancements to the presentation and measurement of insurance contracts while seeking to minimize artificial accounting volatility.

- (ii) IASB ED of *Agriculture: Bearer Plants (Proposed Amendments to IAS 16 and IAS 41)*

The Institute has issued an **Invitation to Comment** on IASB ED of *Agriculture: Bearer Plants (Proposed Amendments to IAS 16 and IAS 41)*, with comments requested by **30 September 2013**.

Bearer plants are a class of biological assets that, once mature, are held by an entity solely to grow produce over their productive life. IAS 41 *Agriculture* requires all biological assets that are related to agricultural activity, including bearer plants, to be measured at fair value less costs to sell. This requirement is based on the principle that biological transformation is best reflected by fair value measurement.

However, once mature, bearer plants no longer undergo significant biological transformation. Furthermore, their operation is similar to that of manufacturing. Consequently, the ED proposes that bearer plants are accounted for by IAS 16 *Property, Plant and Equipment* instead of IAS 41, thus permitting the use of either a cost model or a revaluation model. The produce growing on the bearer plants would remain under the fair value model in IAS 41.

## 5. Institute Comments on Consultation Document

The Institute sent a **response** to the IASB on its Request for Information on Rate Regulation.

The Institute appreciated the effort of the IASB in seeking examples of rate-regulatory schemes to help identify the common features of rate regulation, with a view to developing specific guidance for accounting for the consequences

of rate regulation. Amongst different types of rate regulation, electricity distribution in Hong Kong was considered as a type of industry which was subject to rate regulation that the Institute might consider as relevant.

In this connection, the Institute provided examples of rate-regulatory schemes by extracting publicly-available information issued by the government of Hong Kong and the two power generation, distribution and supply companies which operate in Hong Kong.

## Audit & Assurance

### 6. HKICPA Auditing and Assurance Standards Committee

The **AASC minutes** of the meeting held on 28 May 2013 covered the following items:

- Work Plan Status Report and Update from Working Groups
- IAASB Future Strategy Survey
- Circular on Reporting to Grantees of the Quality Education Fund
- Basel Committee's consultative document *External audits of banks*
- ICAS's discussion paper on the provision of positive assurance on management commentary – *Balanced and Reasonable*

### 7. Circular on Reporting to Grantees of the Quality Education Fund

The Institute issued a **Circular** on Reporting to Grantees of the Quality Education Fund. The Circular provides practical guidance to practicing members when reporting to the Grantees on the project accounts and internal controls.

## International Meetings

### 8. International Accounting Standards Board

The IASB met on 18-19 June 2013, and discussed the following topics:

- Financial Instruments: Classification and Measurement
- Comprehensive review of the *IFRS for SMEs*
- IFRIC Update
- *Annual Improvements to IFRSs 2011-2013 Cycle*
- *Annual Improvements to IFRSs 2010-2012 Cycle*

Click to view the IASB Update on the meeting of **18-19 June**. The IASB next meets in July 2013.

## 9. IFRS Interpretations Committee

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

## 10. International Auditing and Assurance Standards Board

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

## 11. International Ethics Standards Board for Accountants

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

### Useful Resources

## 12. Publications

- (i) **Jurisdiction profiles** by IFRS Foundation on IFRS application
- (ii) **Bulletin** by BDO to outline key valuation requirements under HKFRS 13 *Fair Value Measurement*
- (iii) **Training module** for "Business combinations and goodwill" of IFRS for SMEs
- (iv) **Feedback statement** by IASB on disclosure forum

- (v) **2012 annual report** by IFRS Foundation
- (vi) **Guide** by PwC on applying the revised standard for employee benefits
- (vii) **Guide** by PwC on applying the amendment to IFRS 10 *Consolidated Financial Statements* for exception to consolidation
- (viii) Reminders on new and revised pronouncements by **Deloitte** and **KPMG**

### Comment Due Dates

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

**15 August 2013:** IASB ED of *Leases*

**25 September 2013:** IASB ED of *Insurance Contracts*

**30 September 2013:** IASB ED of *Agriculture: Bearer Plants (Proposed Amendments to IAS 16 and IAS 41)*

## Specialist Practices, Business Members and Advocacy

### Professional Accountants in Business

#### 13. Best Corporate Governance Disclosure Awards 2013 Invites Entries

Now in its 14th year, the **Best Corporate Governance Disclosure Awards** ("Awards") is highly regarded as a benchmark of Hong Kong's current corporate governance standards. A media briefing to launch the 2013 Awards was held on 4 July.

The Awards focus on voluntary disclosures of governance information in annual reports that reflects practices and information disclosure which clearly exceed the legal and regulatory requirements.

There are five categories for the Awards, namely Hang Seng Index ("HSI"), non-HSI (with separate categories for large companies and mid-to-small companies by market capitalization), H-share companies and other Mainland enterprises, and public sector/not-for-profit organizations. In addition, an award will be presented for excellence in sustainability and social responsibility reporting.

Take this opportunity to show support for good corporate governance by encouraging your organization to participate in the Awards. The deadline for entry is 13 August 2013. Click for the [press release](#) and the [entry form](#).

#### 14. Consultation on Public Sector Governance Released by IFAC, CIPFA

The International Federation of Accountants ("IFAC"), and the Chartered Institute of Public Finance and Accountancy ("CIPFA") have issued a consultation paper, **Good Governance in the Public Sector – Consultation Draft for an International Framework** which aims to encourage better service delivery and improved accountability by establishing an international benchmark for good governance in the public sector. Deadline for comments to IFAC is **16 September 2013**.

Members working in the public sector and other public sector stakeholders are encouraged to respond to the proposed Framework to help improve its applicability to public sector entities at all levels internationally. If you wish to convey your views to the Institute, please send them to < [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk) > by **31 August 2013**.

### Taxation

#### 15. Announcements by the Inland Revenue Department

Members should be aware of:

- **A notice** regarding property owners' obligations
- The Inland Revenue Department ("IRD")'s **senior appointments**
- The IRD's **performance pledge annual report 2012/13**
- **Press release** regarding the passage of **Inland Revenue (Amendment) (No. 2) Bill 2013**. The Bill seeks to implement the concessionary revenue measures proposed in the 2013-14 Budget.
- **Hong Kong's double tax agreement with Jersey** came into effect on 3 July
- **A legco question** on measures to address the overheated property market. A sub-question was raised about exempting companies which are wholly owned by HKPRs from paying Buyers' Stamp Duty for acquisition of residential properties. The secretary for transport and housing explained that the exemption is not acceptable because it will send a wrong message to the public that the government is not determined to cool down the property market. Although the imposition of conditions to restrict the transfer of company shares could be implemented, there would still be loopholes that are extremely difficult to plug.

## 16. Tax Exchange of Information Legislation Passed

The Inland Revenue (Amendment) Bill 2013, which provides for Hong Kong to enter into standalone tax information exchange agreements, has been passed by the Legislative Council ("LegCo"), despite some concerns about safeguards and the potential passing on of information about taxpayer for non-tax purposes, expressed by the Institute and others (see the [Institute's submission](#)). For the report from the Bills Committee to the House Committee of the Legislative Council, click [here](#).

### Legislation & Other Initiatives

## 17. Consultation Conclusions on Legislative Proposals for an Independent Insurance Authority

The government has issued the [conclusions](#) of a consultation, conducted between October 2012 and January 2013, on legislative proposals to establish an independent insurance authority ("IIA"). The government has refined the proposals in the light of the consultation and is planning to introduce an Insurance Companies (Amendment) Bill into LegCo in 2013/14, with a view to setting up the IIA in 2015.

## 18. Latest Anti-Money Laundering Notices

Members may wish to note that the following notices and publications in relation to anti-money laundering/ combating terrorist financing ("AML/CFT"):

- **Financial action task force ("FATF") public statement:** Draws attention of its members (Hong Kong has been a member since 1990) on the risks of transactions involving Iran, Democratic People's Republic of Korea, Ecuador, Ethiopia, Indonesia, Kenya, Myanmar, Pakistan, São Tomé and Príncipe, Syria, Tanzania, Turkey, Vietnam and Yemen.
- **Improving global AML/CFT compliance: on-going process:** Draws the attention of FATF members to jurisdictions with deficiencies that pose money

laundering/terrorist financing risks in the international financial system.

- **Guidance for a risk-based approach – prepaid cards, mobile payments and internet-based payment services:** The FATF has issued guidance on how to apply a risk-based approach to implementing AML/CFT measures on new and innovative payment products and services.
- **Combating the abuse of non-profit organizations ("NPOs") (Recommendation 8):** The FATF has established best practices in relation to preventing misuse of NPOs for terrorist financing while recognizing the legitimacy of NPOs.
- **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

## 19. 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.

## 20. Other Publications

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

- (i) Hong Kong Exchanges and Clearing ("HKEx") has published:

- A new series of frequently asked questions (**Series 23**) in relation to disclosure of a new listing applicant's unaudited net profits after its track record period in a listing document
  - A listing decision in relation to whether a listing applicant has satisfactorily demonstrated that its principal mineral asset has a clear path to commercial production under rule 18.07 (**HKEx-LD74-2013**)
  - Updated guidance letter in relation to:
    - Disclosure in listing documents for Initial Public Offering ("IPO") cases – the "Summary and Highlights" section (**HKEx-GL27-12**)
    - Conditions for waivers from strict compliance with Main Board Rule 4.04(1) and GEM Rules 7.03(1) and 11.10 (**HKEx-GL25-11**). This updated guidance superseded listing decision (**HKEx-LD45-3**)
  - **Presentation** by Charles Li, HKEx chief executive, on "Connecting the Dots for HKEx's Strategic Plan 2013-2015" at the Hong Kong Securities and Investment Institute luncheon
  - **Report** on IPO applications, delisting and suspensions (as at 28 Jun)
- (ii) The Securities and Futures Commission ("SFC") has published:
- **2012-13 annual report**, themed Regulation for Quality Markets.
  - **Issue no. 25 of Takeovers Bulletin**, which clarifies "disqualifying transactions" under paragraph 3 of the Whitewash Guidance Note and the application of Rule 20.1(b) of the Takeovers Code to share repurchases by partial offer
  - **Speech** by Mark Steward, SFC executive director of enforcement, at Legal Week's Corporate Counsel Forum
- (iii) Articles on corporate governance by Deloitte:
- **Perspectives on family owned businesses: governance and succession planning**
  - **What does an effective board education program look like?**
  - **Asia Pacific economic outlook – China, Japan, South Korea, and Taiwan**
  - **COSO enhances its *Internal Control - Integrated Framework***
- (iv) **The 2013 COSO framework & SOX compliance: one approach to an effective transition** by COSO
- (v) **Demystifying sustainability risk: integrating the triple bottom line into an enterprise risk management program** by COSO, Ernst & Young LLP and Miami University
- (vi) **Is natural capital a material issue?** by the Association of Chartered Certified Accountants, KPMG, and Fauna and Flora International
- (vii) **Natural capital at risk: the top 100 externalities of business** by The Economics of Ecosystems and Biodiversity for Business Coalition