



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

## Contents

### Financial Reporting, Auditing and Ethics

#### New!

1. [HKICPA & SFC Joint Seminar in January 2014](#)

#### Members' Handbook

2. [Handbook Update No. 134](#)

#### Financial Reporting

3. [Invitation to Comment on IASB ED](#)
4. [Institute Comments on IASB ED](#)

#### Audit & Assurance

5. [HKICPA Auditing and Assurance Standards Committee](#)
6. [Institute Comments on IAASB ED](#)
7. [Auditing and Assurance Technical Bulletin 1 \(Revised\)](#)

#### Ethics

8. [Ethics Circular 1 \(Revised\)](#)

#### International Meetings

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

#### Useful Resources

14. [Publications](#)

#### Comment Due Dates

### Specialist Practices, Business Members and Advocacy

#### Corporate Governance

15. [Results of the 2013 Best Corporate Governance Disclosure Awards](#)
16. [HKEx Report on Listed Companies' Corporate Governance Practices](#)

#### Professional Accountants in Business

17. [IFAC Information Paper on Costing](#)

#### Corporate Finance

18. [Note on Statutory Inside Information Disclosure Requirements](#)
19. [SFC Report on SEHK's Performance in Regulating Listing Matters](#)
20. [Financial Services Development Council Research Reports](#)

#### Restructuring and Insolvency

21. [Revision of Fees and Deposits in relation to Bankruptcy and Winding-up Proceedings](#)

#### Taxation

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

#### Legislation & Other Initiatives

23. [New Companies Ordinance – Gazzettal of Second Batch of New Specified Forms](#)
24. [Statutory Requirements on Annual General Meetings](#)
25. [Latest Anti-Money Laundering Notices](#)

#### Useful Resources

26. [Library Resources](#)
27. [Other Publications](#)

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## Financial Reporting, Auditing and Ethics

### New!

### 1. HKICPA & SFC Joint Seminar in January 2014

The Institute will hold a seminar on the Audit of Licensed Corporations jointly with the Securities and Futures Commission ("SFC") on 20 January 2014. The seminar covers the following:

- Highlight of the key reporting responsibilities of the auditors
- Discussion of topical issues and areas of concern over applying PN 820
- Impact of the key Auditing Standards issued
- Audit/Compliance Review under s156 SFO & Reporting under s157 SFO
- Fraud/Breach Investigation
- Special Compliance and Internal Control Review
- Consultancy engagements

To secure seats, please register early by completing the [registration form](#).

Click [here](#) for an indicative list of topics to be included in the technical learning and support programme from July 2013 to June 2014.

### Members' Handbook

### 2. Handbook Update No. 134

**Update No. 134** contains revision to the Code of Ethics for Professional Accountants (Revised), PN810.2 *The Duties of the Auditor of an Insurer authorized under the Insurance Companies Ordinance* and PN860.1 *The Audit of Retirement Schemes* and other editorial changes.

The changes to the Code of Ethics for Professional Accountants are intended to more closely align its definition of "those charged with governance" with that in HKSA 260 *Communication with Those Charged with Governance* thereby eliminating any potential confusion. The changes clarify that a subgroup of those charged with governance of an entity, such as an audit committee, may assist the governing body in meeting its responsibilities.

References have been revised in PN810.2 and PN860.1 to reflect the clarified HKSA's.

### Financial Reporting

### 3. Invitation to Comment on IASB ED

The Institute has issued an [Invitation to Comment](#) on IASB Exposure Draft ("ED") of *Equity Method in Separate Financial Statements (Proposed Amendments to IAS 27)*, with comments requested by **3 January 2014**.

As stated in the IASB's press release, accompanying the ED, the proposed amendments to IAS 27 *Separate Financial Statements* would allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate (parent only) financial statements.

The IASB expects the proposed change will reduce compliance costs for many entities, while providing information helpful to an assessment of the investor's net assets and profit or loss.

### 4. Institute Comments on IASB ED

The Institute sent a [comment letter](#) to the IASB on its ED of Insurance Contracts.

The Institute was concerned that the proposals for insurance contract accounting may not result in financial information with reasonable understandability. Management may still need to incorporate a significant amount of narrative information in both financial statements and management discussion and analysis section of the annual report to describe its operating performance and financial position. Such

circumstance was not desirable and affected the relevance of the proposals in both financial statements preparer and user perspective.

The Institute was also concerned that certain aspects of the proposals may not match with how an insurance business was typically managed. This may in turn add burden to the financial statements preparers but without enhancing the usefulness of the financial information.

## Audit & Assurance

### 5. HKICPA Auditing and Assurance Standards Committee

The [AASC minutes](#) of the meeting held on 22 October 2013 covered the following items:

- Work Plan Status Report and Update from Working Groups
- Revised PN 860.1 *The Audit of Retirement Schemes*
- ISAE 3400 *The Examination of Prospective Financial Information*
- Annual Auditing Update Conference 2013
- The Global Accounting Alliance's Joint Thought Leadership Projects
- IFAC Council Seminar on "The Drivers of Audit Quality"
- Update on Section 408 Guidance

### 6. Institute Comments on IAASB ED

The Institute sent a [comment letter](#) to the IAASB on its ED on Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing.

The Institute was supportive of the proposed changes to the auditor's report to provide more information to stakeholders to meet their needs. However, the Institute had concerns as to the extent of additional information provided particularly under key audit matters.

In addition, given that other standard setters such as the US PCAOB and the UK FRC had also proposed changes to the auditor's report in their respective jurisdictions, the Institute would encourage the IAASB to liaise with them when finalizing the ISAs. This would be helpful in ensuring the proposed changes for auditor's reporting were well understood and implemented consistently.

### 7. Auditing and Assurance Technical Bulletin 1 (Revised)

The Institute has revised [Auditing and Assurance Technical Bulletin 1](#) to provide assistance to new applicants and sponsors in connection with due diligence by sponsors in respect of initial listing applications.

## Ethics

### 8. Ethics Circular 1 (Revised)

The Institute has revised [Ethics Circular 1](#) to provide guidance for small- and medium-sized practitioners on the application of the Code of Ethics for Professional Accountants.

## International Meetings

### 9. International Accounting Standards Board

The IASB met on 20-23 November 2013, and discussed the following topics:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Acquisition of an Interest in a Joint Operation
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* - ED *Clarification of Acceptable Methods of Depreciation and Amortization*
- Annual Improvements to IFRSs 2012-2014 cycle - Due process paper
- IFRS 2 *Share-based Payments* - definition of performance condition: performance target achieved after the service period

- Amendments to IAS 1
- Revenue Recognition
- Financial Instruments: Classification and Measurement
- Leases
- Financial Instruments: Impairment
- Post-implementation Review of IFRS 3
- Rate-regulated Activities

Click to view the IASB Update on the meeting of **20-23 November**. The IASB next meets in December 2013.

## 10. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 12-13 November 2013, and discussed the following topics:

- IAS 19 *Employee Benefits* – Employee benefit plans with a guaranteed return on contributions or notional contributions
- Interpretations Committee agenda decisions
- Interpretations Committee tentative agenda decisions
- Issues considered for narrow-scope amendments
- Interpretations Committee's work in progress
- Interpretations Committee's other work

Click to view the IFRIC Update on the meeting of **12-13 November**. The IFRS Interpretations Committee next meets in January 2014.

## 11. IFRS Accounting Standards Advisory Forum

The IFRS ASAF next meets in December 2013. Click [here](#) for details and previous meeting summary.

## 12. International Auditing and Assurance Standards Board

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

## 13. International Ethics Standards Board for Accountants

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

### Useful Resources

## 14. Publications

- (i) Deloitte [IFRS compliance, presentation and disclosure checklist](#)
- (ii) UK FRC [Update](#) on latest financial reporting developments in UK
- (iii) PwC [Update](#) on hedge accounting
- (iv) PwC [Update](#) on the end of an era on joint standard setting
- (v) PwC [Pocket Guide](#) on summary of IFRS
- (vi) PwC [Comparison](#) between IFRS and US GAAP
- (vii) [Communiqué](#) of China-Japan-Korea meeting by standard setters from China, Japan and Korea

### Comment Due Dates

**16 December 2013:** IASB DP *Conceptual Framework*

**3 January 2014:** IASB ED of *Equity Method in Separate Financial Statements (Proposed Amendments to IAS 27)*

**20 January 2014:** IASB ED of *IFRS for SMEs*

## Specialist Practices, Business Members and Advocacy

### Corporate Governance

#### 15. Results of the 2013 Best Corporate Governance Disclosure Awards

The Best Corporate Governance Disclosure Awards 2013 ("Awards") was successfully concluded with the presentation ceremony held at a luncheon on 2 December. The guest of honour was the SFC chairman, Mr. Carlson Tong.

The results of the 2013 Awards were announced at a [media briefing](#) held on 29 November.

Top awards were not given out in all categories once again this year, as the judges were of the view that companies and organizations in those categories still had a way to go to achieve the highest standard of corporate governance. There were first-time winners in the category for H-share companies and other Mainland enterprises. The sustainability and social responsibility reporting award, introduced in 2011, was a focus this year, with two special mentions being given out in addition to the overall award.

The winners of the 2013 Awards were:

##### Hang Seng Index Category

Diamond – CLP Holdings Limited ("CLP")  
Platinum – MTR Corporation Limited  
Gold – Hong Kong Exchanges and Clearing Limited ("HKEx")

##### Non-Hang Seng Index (Large Market Capitalization) Category

Diamond – Prudential plc  
Platinum – The Hongkong and Shanghai Hotels, Limited ("HSH")  
Gold – Hysan Development Company Limited  
Special Mention – Transport International Holdings Limited

##### Non-Hang Seng Index (Mid-to-small Market Capitalization) Category

Gold – SOCAM Development Limited

##### H-share Companies and Other Mainland Enterprises Category

Platinum – Lenovo Group Limited  
Gold – China Minsheng Banking Corp., Ltd.

##### Public Sector/Not-for-profit Category

Gold – Securities and Futures Commission

##### Sustainability and Social Responsibility Reporting Award

Overall Winner – CLP  
Special Mention – HSH  
Special Mention – China Shenhua Energy Company Limited

The [judges' report](#) contains commentaries on the winners' corporate governance practices and disclosures, general observations by the judges and reviewers on standards of corporate governance in Hong Kong, as well as other background information.

#### 16. HKEx Report on Listed Companies' Corporate Governance Practices

HKEx has published the findings of its fifth review of listed companies' corporate governance practices. The Code on Corporate Governance Practices (now the Corporate Governance Code ("Code")) became effective in 2005, and on 1 April 2012, substantial amendments were implemented, resulting in the addition of 30 new Code Provisions. The fifth review involved analyzing the disclosures made by 1,083 companies in their 2012 annual reports, focusing on the period from 1 April to 31 December 2012, during which the revised Code applied. The review looks at the effectiveness of the implementation of the Code.

Click [here](#) for more information.

### Professional Accountants in Business

#### 17. IFAC Information Paper on Costing

The Professional Accountants in Business Committee of the International Federation of Accountants ("IFAC PAIBC") has issued an

information paper – "[Evaluating the Costing Journey: A Costing Levels Continuum Maturity Framework 2.0](#)". The paper was published as a companion document to the International Good Practice Guidance, [Evaluating and Improving Costing in Organizations](#). It aims to help professional accountants decide what level of costing sophistication to use given organizational requirements and the needs of managers and employees.

### Corporate Finance

#### 18. Note on Statutory Inside Information Disclosure Requirements

The Institute is aware that the statutory inside information disclosure requirements have given rise to questions among some listed companies. With a view to seeking clarification on certain practical aspects of the law, representatives of the Institute sought a meeting with the SFC. Following the meeting, a [summary paper](#) has been produced, setting out the Institute's understanding of the position on some of the issues discussed. The paper may be of assistance to members working in listed companies who need to apply the law.

Members should also be aware of the [Guidelines on Disclosure of Inside Information \(June 2012\)](#) and the [answers to frequently-asked questions \("FAQs"\) on disclosure of inside information](#) issued by the SFC.

#### 19. SFC Report on SEHK's Performance in Regulating Listing Matters

The SFC has published a [report](#) on its annual review of the performance of the Stock Exchange of Hong Kong ("SEHK") in its regulation of listing matters during 2012.

The SFC is of the view that the operational procedures and decision-making processes reviewed were appropriate to enable SEHK to discharge its statutory obligations to maintain an orderly, informed and fair market, during the review period. It has also identified certain areas for SEHK to continue to enhance its performance.

#### 20. Financial Services Development Council Research Reports

The Financial Services Development Council released six research reports on 18 November. The reports provide a framework of strategies to further enhance Hong Kong's position as an international financial centre, explore new opportunities and challenges to Hong Kong brought about by the economic growth and restructuring in mainland China, and propose measures to support future development of Hong Kong's financial services industry.

Read the [press release](#) and the [reports](#) for details.

### Restructuring and Insolvency

#### 21. Revision of Fees and Deposits in relation to Bankruptcy and Winding-up Proceedings

A total of 31 statutory fees, charges and deposits levied by the Official Receiver's Office ("ORO") on bankruptcy and winding-up cases have been revised, with effect from 1 November 2013. Read the [press release](#) and the [ORO circular no. 1/2013](#) for details.

### Taxation

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

Members may wish to be aware of the following matters:

- LegCo questions about:
  - [Prevention of tax base erosion and profit shifting](#) – the Secretary for Financial Services and the Treasury ("SFST") replied that Hong Kong had been monitoring the development of the OECD's action plan on base erosion and profit shifting. In addition, although the Inland Revenue Department ("IRD") had no plan to change the current transfer pricing practices, whereby the IRD has set out in Departmental Interpretation and Practice Notes No. 46 the methodologies and practices

adopted for dealing with transfer pricing issues, it would monitor international developments to assess the need for corresponding measures. The government would consult stakeholders in due course.

- **Profit tax assessments on unrealized gains:** Following the Court of Final Appeal judgement in the case of Commissioner of Inland Revenue v. Nice Cheer Investment Ltd., which found that unrealized profits from revaluation of unsold stocks were not taxable, SFST explained that the IRD was studying the judgement in detail and examining such matters as the scope of application of the relevant principles and actual practice. SFST also pointed out that a court judgement would not have retrospective effect on cases where the assessments have already become final and conclusive.
- **Advance ruling case no. 53** about sections 14 and 15(1)(f) of the Inland Revenue Ordinance: A company incorporated in Hong Kong is part of a group which is engaged in various businesses in Hong Kong and overseas. The company is not in a money lending business but receives interest income by placing surplus funds with an overseas company which is a fellow subsidiary. To determine the source of the interest income, the "provision of credit" test is used. Since the credit is given to the subsidiary outside Hong Kong, the interest income does not arise, and is therefore not taxable, in Hong Kong.

## Legislation & Other Initiatives

### 23. New Companies Ordinance – Gazettal of Second Batch of New Specified Forms

83 new forms for use under the new Companies Ordinance (Chapter 622) ("the new CO") were gazetted on 1 November 2013, as reported in [TechWatch no. 133](#) (item 18). Following this, a set of nine new specified

forms for use under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32), which will become the name for the residual parts of the current CO upon commencement of the new CO, was gazetted on 8 November 2013. All the new forms should be used with effect from the commencement of the new CO on 3 March 2014.

Refer to the [gazette notice](#) and the [Companies Registry external circular no. 2/2013](#) for details.

### 24. Statutory Requirements on Annual General Meetings

The Companies Registry reminds companies and their officers of the statutory requirements, under sections 111 and 122 of the CO, for every company to hold annual general meetings ("AGMs") and for directors to lay accounts before the company at AGMs. Read the [Companies Registry external circular no. 3/2013](#) for further details.

### 25. Latest Anti-Money Laundering Notices

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

- **Government notice 6296:** An updated list of terrorists and terrorist associates specified under the United Nations (anti-terrorism measures) Ordinance.
- **Government notice 6297:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- **Government notice 6298:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic People's Republic of Korea) Regulation.
- **Government notice 6299:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Libya) Regulation 2011.

- **Government notice 6300:** An updated list of relevant persons has been specified under the United Nations Sanctions (Sudan) Regulation 2013.
- **Legal notice 165:** The United Nations Sanctions (Somalia) (Amendment) (No. 2) 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 AML, 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

## 26. 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.

## 27. Other Publications

(i) HKEx has published:

- Updated **FAQ series 23** in relation to disclosure of a new applicant’s unaudited net profits/losses after its track record period in a listing document (Nov 2013)
- Updated guidance letters in relation to:
  - Disclosure requirements for Initial Public Offering (“IPO”) cases – Disclosure of material changes in

financial, operational and/ or trading position after trading record period (**HKEx-GL41-12**, Nov 2013)

- Disclosure in listing documents for IPO cases – the “Summary and Highlights” section (**HKEx-GL27-12**, Nov 2013)

- An updated listing decision in relation to whether a listing applicant, which was a party to a number of contract-based structures (“Contractual Arrangements”) between or among itself, its PRC subsidiaries, its controlled companies and the registered owners of its controlled companies, would render the listing applicant unsuitable for listing due to legal questions associated with the Contractual Arrangements (**HKEx-LD43-3**, Nov 2013)

- A **report** and **press release** on the findings of HKEx’s review of the first six months of after-hours futures trading at the exchange

- **Report** on IPO applications, delisting and suspensions (as at 29 Nov)

(ii) The SFC has published:

- **Speech** by Mark Steward, SFC executive director of enforcement, on “Beyond Compliance: Prudence and other Challenges” delivered at the 2nd Annual Compliance Summit Asia

(iii) The **Standing Committee on Company Law Reform 2012-13 annual report**

(iv) Articles on corporate governance by Deloitte:

- **Framing the future of corporate governance**
- **Preparing for shareholder activism**<sup>1</sup>
- **Corporate development 2013**

<sup>1</sup> Posted with permission from Weil, Gotshal & Manges LLP, copyright 2013. The article was first published by Practical Law in its Practical Law the Journal at <http://us.practicallaw.com/8-538-3645>.



- **Risk intelligent proxy disclosures – 2013**
  - **Exploring strategic risk**
  - **CFO insights: How CFOs can own analysis**
- (v) **Business and investors explore the sustainability perspective of integrated reporting – IIRC pilot programme yearbook 2013** by International Integrated Reporting Council