



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.

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Financial Reporting, Auditing and Ethics

New!

1. New Technical Learning and Support Programme in July 2014

The Institute will run workshops for auditing and ethics in July 2014 as follows:

- [Workshop on Quality Control](#)
- [Audit Practice Manual Application Workshop](#)
- [ICAC Workshop on Ethical Decision Making](#)

To secure seats, please register early by completing the registration forms by clicking on the above event titles.

Members' Handbook

2. Handbook Updates No. 149 & 150

- (i) [Update No. 149](#) contains consequential amendments to HKFRS which were previously set out in the appendix to the Standards as they were not yet effective. The Institute has taken this opportunity to incorporate the amendments applicable on 1 January 2013 in the relevant affected HKFRS for greater clarity.
- (ii) [Update No. 150](#) updates the relevant auditing and assurance pronouncements for the new Hong Kong Companies Ordinance (Cap. 622) ("new CO").

Financial Reporting

3. HKICPA Financial Reporting Standards Committee

The [FRSC minutes](#) of the meeting held on 26 March 2014 covered the following items:

- Report on the various international meetings in March

- IASB Outreach roundtable on DP Macro-hedging
- Report from the Working Group on Companies Ordinance application issues on financial reporting
- Article on the accounting for transaction costs incurred in an IPO

4. Invitation to Comment on IASB ED

The Institute has issued an [Invitation to Comment](#) on IASB Exposure Draft ("ED") of *Investment Entities: Applying the Consolidation Exception (Proposed Amendments to IFRS 10 and IAS 28)*, with comments requested by **18 August 2014**.

The proposed amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* are designed to clarify three issues about the application of the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them. The proposed amendments:

- confirm that the exemption from presenting consolidated financial statements continues to apply to subsidiaries of an investment entity that are themselves parent entities;
- clarify when an investment entity parent should consolidate a subsidiary that provides investment-related services instead of measuring that subsidiary at fair value; and
- simplify the application of the equity method for an entity that is not itself an investment entity but that has an interest in an associate that is an investment entity.

Audit & Assurance

5. HKICPA Auditing and Assurance Standards Committee

The AASC minutes of the meetings held on [15 April 2014](#) and [27 May 2014](#) covered the following items:

- HKSIR 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness*
- Revised PN 600.1 *Reports by the Auditor under the Hong Kong Companies Ordinance* and example auditor's reports
- Referencing to the predecessor Companies Ordinance in the auditor's report
- Agenda topics for IAASB - NSS Meeting to be held on 29-30 May 2014
- IAASB EDs: ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* and Proposed Consequential and Conforming Amendments to Other ISAs; and Proposed Changes to the ISAs- Addressing Disclosures in the Audit of Financial Statements
- The approach by which the HKICPA promotes *A Framework for Audit Quality* issued by the IAASB
- Annual Auditing Update Conference 2014
- Recent ED issued by the Ministry of Finance

6. Invitation to Comment on ED

The Institute has issued an **Invitation to Comment** on ED Practice Note ("PN") 900 (Revised) *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*, with comments requested by **30 July 2014**.

In order to align with the requirements of the new CO, the following key changes are proposed in PN 900 (Revised):

- Alignment with the new CO;
- Added guidance on consolidation and reporting exemption;
- Added guidance on disclosure requirements on excluded subsidiaries;

- Updated example unmodified auditor's reports in Appendix 1;
- Updated example modified auditor's reports in Appendix 2;
- Updated example "emphasis of matter paragraphs and other matter" auditor's report in Appendix 3;
- Added example audit engagement letter in Appendix 4; and
- Added example representation letter in Appendix 5.

International Meetings

7. International Accounting Standards Board

The IASB met on 17-19 June 2014, and discussed the following topics:

- Insurance Contracts
- Leases
- *Annual Improvements to IFRSs 2012-2014 Cycle*
- IFRS Interpretations Committee Issues
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Clarification of Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)
- Recognition of Deferred Tax Assets for Unrealized Losses (Proposed amendments to IAS 12)
- Business combinations under common control
- *Conceptual Framework*
- Discount rates research – review of existing requirements

Click to view the IASB Update on the meeting of [17-19 June 2014](#). The IASB next meets in July 2014.

8. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in July 2014. Click [here](#) for details.

9. IFRS Accounting Standards Advisory Forum

The IFRS ASAF next meets in September 2014. Click [here](#) for details and previous meeting summary.

10. International Auditing and Assurance Standards Board

The IAASB next meets in September 2014. Click [here](#) for details and previous meeting summary.

11. International Ethics Standards Board for Accountants

The IESBA next meets in July 2014. Click [here](#) for details and previous meeting summary.

Useful Resources

12. Publications

- (i) PwC updated [Q&A](#) on application of IFRSs 10 and 12
- (ii) PwC [Q&A](#) on application of disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*
- (iii) Zhonghui Anda updates on [Accounting for Acquisitions of Interests in Joint Operations](#) and [Clarification of Acceptable Methods of Depreciation and Amortization](#)
- (iv) Zhonghui Anda [update](#) on change of year-end date under new CO

Comment Due Dates

25 July 2014: IESBA ED on Proposed Changes to Certain Provisions of the Code Addressing Non-assurance Services for Audit Clients

30 July 2014: ED PN 900 (Revised) *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*

11 August 2014: IAASB ED Proposed Changes to the International Standards on Auditing Addressing Disclosures in the Audit of Financial Statements

18 August 2014: IASB ED of *Investment Entities: Applying the Consolidation Exception (Proposed Amendments to IFRS 10 and IAS 28)*

15 September 2014: IASB DP of *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*

Advocacy and Practice Development/ Member Support

Corporate Governance

13. Best Corporate Governance Disclosure Awards 2014 Invites Entries

Now in its 15th 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 2014 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 minimum legal and regulatory requirements.

There are five categories in 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 **14 August 2014**. Click for the [press release](#) and the [entry form](#).

14. Exchange Publishes Consultation Paper on Internal Controls Section of its CG Code

The Stock Exchange of Hong Kong Limited ("HKEx") published a [consultation paper](#) on proposed changes to the section of its Corporate Governance Code and Corporate Governance Report ("the Code") relating to internal controls.

HKEx is proposing that the internal controls section of the Code should be expanded to

cover the broader area of risk management. HKEx further considers that the Code should better delineate the roles and responsibilities of an issuer's board, management and internal audit function, in relation to its risk management and internal control systems, and set out the minimum specific disclosures that an issuer should make in its Corporate Governance Report, so as to enhance the transparency of its systems. For the first time, it is proposed that all listed companies should have an internal audit function and, if they do not, they should review the position annually and disclose the reasons for not having such a function.

Click [here](#) to learn more about the consultation. If you wish to submit views via the Institute, please send your comments to [<commentletters@hkcipa.org.hk>](mailto:commentletters@hkcipa.org.hk) by **11 August 2014**.

Professional Accountants in Business

15. International Framework: Good Governance in the Public Sector

The International Framework: Good Governance in the Public Sector, jointly developed by International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy, helps improve and encourage effective public sector governance. The Framework encourages better governed and managed public sector organizations by improving decision making and the efficient use of resources. Enhanced stakeholder engagement, robust scrutiny, and oversight of those charged with primary responsibility for determining an entity's strategic direction, operations, and accountability, leads to more effective interventions and better outcomes for the public at large. Click [here](#) for more details.

Corporate Finance

16. Firm Appeals Court Order over Producing Mainland Papers

Following the court judgment (see [TechWatch no. 140](#), item 15), Ernst & Young ("EY") has produced documents that it was holding in Hong Kong to the Securities and Futures

Commission ("SFC"). It filed a notice of appeal in respect of the court order to produce documents held by EY Hua Ming in the Mainland on 20 June. EY Hua Ming was EY's agent in carrying out specific audit activities in the Mainland, as part of EY's engagement as reporting accountant and auditor of Standard Water Limited.

17. SFC Consultations

SFC has launched consultations on proposals to amend:

- (i) **The Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance ("SFO") (Disclosure of Interests)** ("the Guidelines"), with comments **requested** by **17 July 2014**.

The amendments provide two additional categories for exemption under the Guidelines to cover participants of HKEx and clearing participants of a recognized clearing house that are themselves clearing houses. These changes provide a level playing field for market participants involved in Shanghai-Hong Kong Stock Connect whose roles are similar to those currently eligible for an exemption from disclosure obligations under Part XV of SFO.

- (ii) **The Code on Unit Trusts and Mutual Funds**, with comments **requested** by **23 July 2014**.

The proposals give collective investment schemes greater flexibility in determining the means for making public their offer and redemption prices, net asset values ("NAVs") and notices of dealing suspension. Under the proposals, more frequent dissemination of prices and NAVs would also be required.

If you wish to submit views via the Institute, please send your comments to commentletters@hkicpa.org.hk by **16 July 2014**.

Taxation

18. Announcements by the Inland Revenue Department and Other Tax Matters

Members may wish to be aware of the following matters:

- **Ex-senior manager convicted of evading tax**
- **Taxpayer convicted of falsely claiming deductions for self-education expenses and approved charitable donations**
- **The agreement** for the tax information exchange between Hong Kong and the US came into force on 20 June
- **The passage of Inland Revenue (Amendment) Bill 2014**, giving effect to two major concessionary revenue measures proposed in the 2014-15 Budget
- **Reminder of tax obligations of taxpayers and employers**
- **Stamping Circular No. 4/2014 on stock borrowing relief**
- **A notice** regarding property owners' obligations on property tax

Legislation & Other Initiatives

19. Anti-Money Laundering

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

- **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

20. Library Resources

Featured titles and **new books** for members' reference 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.

21. Other Publications

(i) HKEx has published:

- Updated guidance letters in relation to:
 - (i) disclosure requirements for substantially complete application proofs; (ii) a 3-day checklist for disclosure matters that HKEx will check in application proofs prior to acceptance; and (iii) publication of application proofs and post hearing information packs on HKEx's website ([HKEx-GL56-13](#))
 - Logistical arrangements for publication of application proofs, post hearing information packs and related materials on HKEx's website for listing applicants ([HKEx-GL57-13](#))
- Revisions to the following documents in light of listing rule changes relating to connected transactions and definitions of connected person and associate:
 - Guidance letters on:
 - Pricing policies for continuing connected transactions and their disclosure ([HKEx-GL73-14](#))

- Opinion letters prepared by independent financial advisers under the Listing Rules ([HKEx-GL76-14](#))
- Listed issuers using contractual arrangements for their businesses ([HKEx-GL77-14](#))
- Listing enforcement guidance on who constitutes a connected person and what procedures an issuer should adopt to ensure compliance with connected transaction rules ([HKEx-LEGL03-08](#))
- Frequently asked questions ("FAQ"):
 - [Series 1](#) Rule amendments relating to corporate governance and listing criteria issues
 - [Series 5](#) Rule amendments relating to Growth Enterprise Market review
 - [Series 7](#) Rule requirements relating to notifiable transactions, connected transactions and issues of securities by listed issuers
 - [Series 8](#) Rule amendments relating to the 2008 combined consultation
 - [Series 9](#) Rule requirements relating to notifiable transactions, connected transactions, amendments to articles of association and notices of meeting
 - [Series 10](#) Amendments to connected transaction rules
 - [Series 11](#) Rule amendments relating to circulars and listing documents of listed issuers

- **Series 12** Amendments relating to new Listing Rules for mineral companies
 - **Series 17** Review of the corporate governance code and associated Listing Rules
 - **Series 20** Rule Requirements relating to notifiable transactions, connected transactions, mineral companies, issues of securities and corporate governance code
 - **Series 26** Questions relating to the new CO and its impact on issuers
- Revised **FAQ series 28** on rule requirements relating to connected transactions
 - Revised guidance on:
 - **General meetings**
 - **Practices and procedures for post-vetting announcements of listed issuers and handling matters involving trading arrangements prior to publication of announcements**
 - **Pre-vetting requirements and selection of headline categories for announcements**
 - **Report** on initial public offering applications, delisting and suspensions (as at 30 June)
- (ii) SFC has published:
- **2013-14 annual report**
 - **Takeovers and Mergers Panel's ruling** on whether SouthGobi Resources Limited should be considered a “public company in Hong Kong” within the meaning of the Codes on Takeovers and Mergers and Share Buy-backs (“the Codes”)
 - **Issue no. 29 of Takeovers Bulletin**, which highlights the changes to the commenting process on schedule disclosure requirements under the Codes and Practice Note 20, and the implementation of the new Rule 22 dealing disclosure online submission system and the use of electronic disclosure forms
 - Speech by
 - Carlson Tong, SFC's chairman, on **corporate regulator**
 - James Shipton, SFC's executive director of intermediaries, on **supervision of intermediaries: key initiatives and focus in 2014** and **importance of capital markets professionalism and the role of regulators**
 - Alexa Lam, SFC's deputy chief executive officer, on **Islamic funds**