



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會

# TechWatch

News at a glance



Issue 143 • September 2014

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. [New Technical Learning and Support Programme from September to October 2014](#)

#### Members' Handbook

2. [Handbook Update No. 155](#)

#### Financial Reporting

3. [HKICPA Financial Reporting Standards Committee](#)
4. [Invitation to Comment on IASB ED](#)

#### Audit & Assurance

5. [HKICPA Auditing and Assurance Standards Committee](#)

#### Ethics

6. [Invitation to Comment on IESBA ED](#)
7. [Institute Comments on IESBA ED](#)

#### International Meetings

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

#### Useful Resources

13. [Publications](#)

#### Comment Due Dates

### Advocacy and Practice Development/ Member Support

#### Small & Medium Practitioners

14. [Coming Soon – Next IFAC SMP Quick Poll](#)
15. [Practice Management Updates](#)

#### Corporate Finance

16. [Revised Code on Real Estate Investment Trusts Takes Effect](#)
17. [SFC Consultation Conclusions](#)
18. [HKEx Consultations](#)

#### Taxation

19. [Announcements by the Inland Revenue Department and Other Tax Matters](#)

#### Legislation & Other Initiatives

20. [Anti-Money Laundering](#)

#### Forensics Accounting

21. [Pilot Scheme on E-discovery in the Hong Kong Courts](#)

#### Useful Resources

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

*Financial Reporting, Auditing and Ethics by:*  
Simon Riley (Editor), Ben Lo, Katherine Leung

*Advocacy and Practice Development by:*  
Peter Tisman (Editor), Elena Chai, Wallace Wong

*Member Support by:*  
Mary Lam (Editor), Eddy Wong

TechWatch is prepared by the Hong Kong Institute of CPAs and is intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Institute endeavours to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted by the Institute. This publication contains certain links to resources located on servers, or websites, maintained by third parties, over whom we have no control. Accordingly, the Institute accepts no responsibility or liability for any of the material contained on those servers or the accuracy or legality of information contained on other websites.

## Financial Reporting, Auditing and Ethics

### New!

#### 1. New Technical Learning and Support Programme from September to October 2014

The Institute will run a series of technical update evenings ("TUE"), workshops and seminars on accounting, auditing and ethics from September to October 2014 as follows:

- **TUE – Overview of the new revenue standard: HKFRS 15/IFRS 15 Revenue from Contracts with Customers**
- **Workshop on the new Companies Ordinance – implications on financial reporting**
- **Audit Practice Manual Application Workshop**
- **Workshop on Quality Control**

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

Click [here](#) for an indicative list of topics to be included in the technical learning and support programme from July 2014 to June 2015.

### Members' Handbook

#### 2. Handbook Update No. 155

**Update No. 155** contains *Agriculture: Bearer Plants* (Amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 41 *Agriculture*).

HKAS 41 currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell. This is based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement. However, there is a subset of biological assets, known as bearer plants, which are used solely

to grow produce over several periods. At the end of their productive lives they are usually scrapped. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates.

The amendments state that bearer plants should be accounted for in the same way as property, plant and equipment in HKAS 16 because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of HKAS 16, instead of HKAS 41. The produce growing on bearer plants will remain within the scope of HKAS 41.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

### Financial Reporting

#### 3. HKICPA Financial Reporting Standards Committee

The **FRSC minutes** of the meeting held on 20 June 2014 covered the following items:

- Report on the HKICPA/IASB Roundtable on Macro-hedging
- Report on the meeting between the AOSSG and the IASB in Tokyo
- Members' handbook update
- Report from the Working Group on Companies Ordinance application issues on financial reporting

#### 4. Invitation to Comment on IASB ED

The Institute has issued an **Invitation to Comment** on IASB Exposure Draft ("ED") of *Recognition of Deferred Tax Assets for Unrealized Losses* (Proposed Amendments to IAS 12 *Income Taxes*), with comments requested by **14 November 2014**.

As stated in the IASB's press release, accompanying the ED, IAS 12 addresses the accounting for income taxes, including deferred tax assets. The amendments propose guidance that clarifies how to account for deferred tax assets related to debt instruments measured at fair value.

The draft amendments are proposed in response to diversity in practice and are relevant in circumstances in which the entity reports tax losses.

## Audit & Assurance

### 5. HKICPA Auditing and Assurance Standards Committee

The [AASC minutes](#) of the meeting held on 17 June 2014 covered the following items:

- Work Plan Status Report and Update from Working Groups
- IAASB NSS Meeting held on 29-30 May 2014
- Revised PN 600.1 *Reports by the Auditor under the Hong Kong Companies Ordinance*
- Revised PN 900 *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*
- Proposed amendments to various HKSA's resulting from the new Companies Ordinance
- Annual Auditing Update Conference 2014
- The approach by which the HKICPA promotes *A Framework for Audit Quality* issued by the IAASB

## Ethics

### 6. Invitation to Comment on IESBA ED

The Institute has issued an [Invitation to Comment](#) on IFAC's IESBA ED on Proposed

Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client, with comments requested by **24 October 2014**.

The IESBA aims to respond to stakeholder concern about the appearance of independence and the need to ensure that the threats created by the long association of audit firm personnel with an audit client are appropriately addressed on all audit engagements.

Among the proposed changes are:

- Strengthened general provisions applicable to all audit engagements regarding the threats created by long association;
- With respect to partner rotation, an increase in the mandatory "cooling-off" period, from two to five years, for the engagement partner on the audit of a public interest entity;
- Strengthened restrictions on the type of activities that can be undertaken with respect to the audit client and audit engagement by any former key audit partner during the cooling-off period; and
- A requirement to obtain the concurrence of those charged with governance regarding the application of certain exceptions to the rotation requirements.

The IESBA is also proposing strengthened provisions in Section 291 of the Code dealing with assurance engagements.

### 7. Institute Comments on IESBA ED

The Institute sent a [comment letter](#) to IESBA regarding its ED on Proposed Changes to Certain Provisions of the Code Addressing Non-assurance Services for Audit Clients.

The Institute generally agreed with most proposals in the ED and with the objectives the IESBA was seeking to achieve. The Institute recommended the IESBA to include more specific definitions on "suitable skill, knowledge and experience" and "overseeing the service" to

facilitate better understanding and application of the proposed prerequisite for non-assurance services.

## International Meetings

### 8. International Accounting Standards Board

The IASB next meets in September 2014. Click [here](#) for details.

### 9. IFRS Interpretations Committee

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

### 10. IFRS Accounting Standards Advisory Forum

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

### 11. International Auditing and Assurance Standards Board

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

### 12. International Ethics Standards Board for Accountants

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

## Useful Resources

### 13. Publications

- (i) KPMG [update](#) on *Clarification of Acceptable Methods of Depreciation and Amortization and Bearer Plants*
- (ii) KPMG [update](#) on *AB 5 Guidance for the Preparation and Presentation of a Business Review under the Hong Kong Companies Ordinance*
- (iii) EY [guide](#) on improving disclosure effectiveness
- (iv) PwC guide on [offsetting of financial instruments](#) and [revenue recognition](#)
- (v) PwC [illustrative condensed interim financial statements](#) for 30 June 2014
- (vi) BDO [update](#) on new revenue recognition standard
- (vii) Zhonghui Anda update on [accounting reference period](#) under new Companies Ordinance, [IFRIC agenda decision](#) on interim financial reporting – condensed statement of cash flows and amendments on [bearer plants](#)

## Comment Due Dates

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

**24 October 2014:** IFAC's IESBA ED on Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

**14 November 2014:** IASB ED of *Recognition of Deferred Tax Assets for Unrealized Losses* (Proposed Amendments to IAS 12 *Income Taxes*)

## Advocacy and Practice Development/ Member Support

### Small & Medium Practitioners

#### 14. Coming Soon – Next IFAC SMP Quick Poll

The International Federation of Accountants ("IFAC") SMP Quick Poll is being conducted annually and regularly receives close to 4,000 responses from small- and medium-sized accounting practices ("SMPs") around the world. The poll is conducted to take a snapshot of the issues, trends, and current state of SMPs and their small business clients. It helps IFAC better understand the needs and challenges faced by SMPs, and gives IFAC member bodies insights into the SMPs in their countries.

Stay tuned for the next poll which will be open in early November until mid-December.

#### 15. Practice Management Updates

SMPs are encouraged to subscribe for [Practice Management](#) updates from the [IFAC Global Knowledge Gateway](#) to stay informed of global news and development to help improve the management and operational efficiency of practices.

### Corporate Finance

#### 16. Revised Code on Real Estate Investment Trusts Takes Effect

Following the publication of the consultation conclusions on amendments to the Code on Real Estate Investment Trusts ("REIT Code") (see [TechWatch no. 142](#), item 13), the revised REIT Code was gazetted on 29 August and thereby takes effect.

The Securities and Futures Commission ("SFC") has published [frequently asked questions](#) to provide further guidance to the industry on how to apply the amendments to the REIT Code.

The [REIT page](#) of the Investor Education Centre website has also been updated to reflect the amendments.

#### 17. SFC Consultation Conclusions

- (i) Supplemental conclusions on regulation of IPO sponsors

The consultation conclusions on the regulation of initial public offering ("IPO") sponsors (see [TechWatch no. 123](#), item 15), released by the SFC on 12 December 2012, stated that the SFC would recommend legislative amendments to clarify sponsors' civil and criminal prospectus liability.

After further discussions with industry participants and other interested parties, the SFC has recently released a [supplemental consultation conclusions](#) on the regulation of IPO sponsors, [reaffirming](#) that sponsors who authorize the issue of the prospectuses are subject to existing statutory civil and criminal liability for defective prospectuses. Accordingly, legislative amendments are unnecessary.

- (ii) Exemption of listed corporations from disclosure of interest

On 28 August, the SFC released the [consultation conclusions](#) on proposed amendments to the Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests) ("the Guidelines"), providing 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.

The revised Guidelines will come into effect on 5 September 2014 following gazettal.

#### 18. HKEx Consultations

- (i) Review of Listing Rules on disclosure of financial information

On 22 August, Hong Kong Exchanges and Clearing ("HKEx") published a **consultation paper** to seek views on proposed changes to the Listing Rules relating to the disclosure of financial information and consequential to the enactment of the new Companies Ordinance (Cap. 622). The paper also seeks to streamline disclosure requirements that are already under Hong Kong Financial Reporting Standards, and proposed Listing Rule amendments relating to minor policy issues and housekeeping matters. Comments are requested by 24 October 2014.

Members who wish to submit views on this consultation via the Institute, please send them to [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk) before **10 October 2014**.

(ii) Weighted Voting Rights

On 29 August, HKEx published a **concept paper** to seek views on whether governance structures that give certain persons voting power or other related rights disproportionate to their shareholding (weighted voting right structures) should be permissible for companies listed or seeking to list in Hong Kong. Comments are requested by 30 November 2014.

Click [here](#) to view the slides and [here](#) the webcast of the presentation on the concept paper by David Graham, the HKEx Chief Regulatory Officer and Head of Listing.

Members who wish to submit views on this consultation via the Institute, please send them to [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk) before **10 November 2014**.

## Taxation

### 19. Announcements by the Inland Revenue Department and Other Tax Matters

Members may wish to be aware of the following matters:

- **Tax information agreements** signed with Denmark, the Faroes, Greenland, Iceland, Norway and Sweden
- **Tax evasion sentence suspended by court upon appeal**
- **The updated Stamp Office Interpretation and Practice Notes ("SOIPN") No. 5 (Revised)** on Special Stamp Duty, and the issue of **the SOIPN No.7** on Buyer's Stamp Duty. Also recently issued is **SOIPN No. 6 on "alternative bond schemes"**.

## Legislation & Other Initiatives

### 20. 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.

## Forensics Accounting

### 21. Pilot Scheme on E-discovery in the Hong Kong Courts

The Hong Kong judiciary is conducting a pilot scheme for discovery of electronic documents in commercial cases in the local courts. To this end, the judiciary has recently issued a **practice direction** after consultation with various stakeholders, including the Institute's Forensics Interest Group.

## Useful Resources

### 22. 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.

### 23. Other Publications

- (i) HKEx has published:
  - **report** on initial public offering applications, delisting and suspensions (as at 31 August)
- (ii) SFC has published:
  - **quarterly report** which summarizes the SFC's key regulatory developments in April to June 2014
- (iii) **38th issue of the Land Registry News**, covering the latest updates, services, activities and publicity and corporate citizenship
- (iv) Articles on corporate governance by PwC:
  - **Corporate performance: what do investors want to know**
  - **Shift in global economic power** (video)
- (v) **Fraud 101 – Back to School** by FTI Consulting
- (vi) **How accounting practices can support the globalization of small business** by International Federation of Accountants
- (vii) **CPAs have opportunities in financial planning and forecasting** by Journal of Accountancy
- (viii) **Value of Audit series** by Institute of Chartered Accountants of England and Wales