



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. Joint HKICPA and IFRS Foundation IFRS Conference 2015

The Institute and the IFRS Foundation will jointly host an IFRS Conference 2015 on 12-13 October at the JW Marriott Hotel, Hong Kong.

The Conference will discuss on:

- implementation plans for IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and the upcoming standards on leases and insurance contracts;
- the need and methods for better disclosures, and IFRS measurements including cross-cutting implications; and
- updates on major IASB projects.

Following the Conference, a half-day workshop on implementing the *IFRS for SMEs* will be held on 13 October afternoon, which will cover case studies of the application of the *IFRS for SMEs* in Hong Kong.

Click [here](#) for details and register by 30 July to enjoy the early bird discount.

2. New Technical Learning and Support Programme in June 2015

The Institute will run a series of technical update evenings ("TUE"), workshops and seminars on accounting and auditing in June 2015 as follows:

- **Lunch seminar on Latest Implementation Guidance on the Application of Part 9 of the New Companies Ordinance**
- **HKICPA e-seminar: Improve audit quality – Practice review and common findings**

- **TUE – Risk Management and Internal Control of The Corporate Governance Code and Corporate Governance Report**

To secure a seat, please register early by completing the registration forms (accessible by clicking on the above event titles).

Members' Handbook

3. Handbook Update No. 169

Update No. 169 contains updated "Part D: Additional Ethical Requirements" and "Part E: Specialized Areas of Practice" of the Code of Ethics for Professional Accountants ("Code") and Statements 1.303 in response to the new Hong Kong Companies Ordinance ("CO") (Cap. 622). These updates reflect the latest requirements of the new CO and are effective immediately upon release.

Financial Reporting

4. The Institute's Financial Reporting Standards Committee Meeting Minutes

The **minutes** for the FRSC meeting held on 10 March 2015 is now available and covers the following key items:

- The Institute's draft submissions on IASB Exposure Drafts ED/2014/5 *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2) and ED/2014/6 *Disclosure Initiative* (Proposed amendments to IAS 7)
- IASB ED/2015/1 *Classification of Liabilities* (Proposed amendments to IAS 7)
- Developments of the Companies Ordinance Working Group
- A letter to the IASB regarding the effective date of IFRS 15
- Revised 2015 FRSC work plan and activities

5. Invitation to Comment on IASB ED

The Institute has issued an **Invitation to Comment** on IASB Exposure Draft ("ED") ED/2015/2 *Effective Date of IFRS 15*, and requested for comments to the Institute by **19 June 2015**. The ED contains a proposal to defer the effective date of IFRS 15 by one year to 1 January 2018.

IFRS 15 was issued by the IASB jointly with the US Financial Accounting Standards Board ("FASB") as a convergence project, in May 2014, with effective date of 1 January 2017. At a later stage, the IASB is planning to issue a further ED of targeted amendments to IFRS 15, which will include clarifying some of its requirements and adding illustrative examples to aid implementation of the Standard. These targeted amendments arise from discussions of the joint Transition Resource Group, established in conjunction with the FASB to support the implementation of the Standard.

The FASB is also currently consulting on a proposal to defer the effective date of its revenue Standard by one year.

Audit & Assurance

6. The Institute's Auditing and Assurance Standards Committee Meeting Minutes

The **minutes** for the AASC meeting held on 21 April 2015 covered the following key items:

- Work Plan Status Report and Update from Working Groups
- Update on the IAASB's Projects and National Standard Setters Meeting
- Revised PN 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*
- Revised AATB 1 *Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting*
- Update on Auditor's Reporting Engagement Plan

- Proposed HKSA's on Auditor's Reporting
- Draft guidance on Auditor's Report Signing Arrangements

7. Invitation to Comment on ED Technical Bulletin

The Institute has issued an **Invitation to Comment** on ED Revised Technical Bulletin AATB 1 *Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting*, and requested for comments to the Institute by **8 June 2015**.

AATB 1 was last revised in November 2013 as a result of the new regulation of sponsors in connection with Initial Public Offerings ("IPOs") published by the Securities and Futures Commission. Since the IPO sponsors regulatory regime took effect in 2013, 'long form report' has become a typical option adopted for the accountants' assistance to sponsors under Practice Note 21 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 'Due Diligence by Sponsors in respect of Initial Listing Applications'. In view of this, a proposed arrangement letter covering the 'long form report' engagement has been developed in consultation with stakeholders.

Ethics

8. Institute Comments on IESBA ED

The Institute **commented** on IESBA ED on *Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles*.

The Institute supports the IESBA's initiative to strengthen Part C of the Code in order to better promote the ethical behavior of professional accountants in business ("PAIBs") given the important role they play in the financial reporting supply chain.

However, the Institute has some reservations about the clarity of some examples in paragraph 320.3 of the ED that address situations when PAIBs are required to exercise discretion in a manner that is not intended to mislead. In

particular, the Institute believes those examples may give rise to some confusion over the need and ability to use professional judgement in the application of accounting standards.

9. Revised Ethics Circular 1

Revised [Ethics Circular 1](#) (May 2015) *Guidance for Small and Medium Practitioners on the Code of Ethics for Professional Accountants* contains updated paragraph references to the Code.

International Meetings

10. International Accounting Standards Board

The IASB met on 18-20 May 2015 and discussed the following topics:

- Insurance Contracts
- Accounting for Dynamic Risk Management
- Financial Instruments with Characteristics of Equity
- Revenue from Contracts with Customers
- Rate-regulated Activities
- Disclosure Initiative
- IFRS Implementation Issues
- IFRS 2 Share-based Payment Research Project

Click to view the [IASB Update](#) for this meeting. The IASB next meets on 22-26 June 2015.

11. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 12 May 2015 and discussed issues related to the following standards:

- IAS 16 *Property, Plant and Equipment*
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*

- IAS 23 *Borrowing Costs*
- IAS 24 *Related Party Disclosures*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 13 *Fair Value Measurement*

Click to view the [IFRIC Update](#) for this meeting. The IFRS Interpretations Committee next meets on 14-15 July 2015.

12. IASB Accounting Standards Advisory Forum

The IASB ASAF next meets on [16-17 July 2015](#).

13. International Auditing and Assurance Standards Board

The IAASB next meets on [15-19 June 2015](#).

14. International Ethics Standards Board for Accountants

The IESBA next meets on [29 June -1 July 2015](#).

Useful Resources

15. Publications

EY published:

- an [update](#) to provide an overview of upcoming changes in IFRS; and
- a [guide](#) to discuss classification of financial instruments under IFRS 9 *Financial Instruments*.

KPMG published:

- [illustrative interim condensed financial statements](#); and
- [disclosure checklist](#).

PwC published:

- a **guide** to discuss general hedge accounting in applying IFRS 9; and
- an **update** about the latest developments on IFRS.

The IASB published an updated **pocket guide** on adoption of IFRS around the world.

The Institute published an **alert** on auditor's report signing arrangements.

Comment Due Dates

Comments to the Institute on the following ED is due by:

19 June 2015: ED/2015/2 *Effective Date of IFRS 15* (Proposed amendments to IFRS 15)

Advocacy and Practice Development/ Member Support

Professional Accountants in Business

16. New IFAC Paper Advises Boards and Management on Effective Risk Management

Effective management of risk helps organizations achieve their objectives, while complying with legal, regulatory, and societal expectations, and enables them to better respond and adapt to surprises and disruptions. With this in mind, the International Federation of Accountants ("IFAC") has recently published a thought paper, **From Bolt-on to Built-in**, which provides advice on how boards and management can effectively manage risk as an indispensable and integral part of managing an organization. There is a brief **article** on the IFAC website to accompany the release.

According to the IFAC, the document also:

- Demonstrates the benefits of properly integrating the management of risk, including internal control, into the governance, management, and operations of an organization
- Provides ideas and suggestions on how such integration can be achieved
- Furnishes practical examples of how professional accountants in business can support their organizations with this integration

This thought paper is applicable to all organizations, regardless of size, structure, public or private. IFAC welcomes comments on the paper.

Corporate Finance

17. Update on Reporting and Record Keeping Rules for OTC Derivatives

As reported in [TechWatch no. 146](#) (item 14), the Hong Kong Monetary Authority ("HKMA") and the Securities and Futures Commission ("SFC") published their conclusions on a joint public consultation on the mandatory reporting and related record keeping obligations under the new over-the-counter ("OTC") derivatives regime, and sought further views on three ancillary matters relating to:

- (i) Reporting of valuation transaction information (including the details of this requirement and the proposed implementation timetable)
- (ii) Designation of a list of jurisdictions for the purpose of the masking relief
- (iii) List of stock markets, futures markets and clearing houses to be prescribed for the purposes of defining the scope of the OTC derivatives regime.

On 15 May 2015, the HKMA and the SFC released their [conclusions](#) on the further consultation. Proposals on certain aspects of the reporting regime were revised after taking into account market feedback. Some highlights are set out in the [press release](#). A set of [frequently asked questions](#) ("FAQs") has also been prepared to help market participants better understand how the rules operate.

18. SFC and CSRC Agreement on Mainland-Hong Kong Mutual Recognition of Funds

The SFC and the China Securities Regulatory Commission ("CSRC") have signed a Memorandum of Regulatory Cooperation on Mainland-Hong Kong Mutual Recognition of Funds ("Memorandum"), which will allow eligible Mainland and Hong Kong funds to be distributed in each other's market through a streamlined vetting process. The scheme will be implemented on 1 July 2015.

The Memorandum has also established a framework for exchange of information, regular

dialogue as well as regulatory cooperation in relation to the cross-border offering of funds.

Further details about the scheme are set out in the [joint announcement](#) issued by the SFC and the CSRC and in the SFC [circular](#).

19. SFC Enhances Regime to Regulate Alternative Liquidity Pools

The SFC has released [consultation conclusions](#) on proposals to enhance and unify the regulatory regime for alternative liquidity pools ("ALPs"). The enhanced regulatory regime, which is developed in light of practices in major international markets and the principles published by the International Organization of Securities Commissions, aims to provide a level playing field for all ALP operators in Hong Kong.

The enhancements include:

- No individual investors (including individual professional investors and their wholly owned investment holding corporations) will be allowed to use ALPs
- Client facilitation orders will be treated as proprietary orders, which will have a lower execution priority in ALPs than agency orders
- There will be no mandatory "opt-in" requirement before client orders can be routed to ALPs, but ALP operators should permit their clients to opt out of having their orders transacted in ALPs

The new regime, which involves amendments to the Code of Conduct for Persons Licensed by or Registered with the SFC ("Code of Conduct"), will come into effect on 1 December 2015.

20. SFC Launches New Register of Cold Shoulder Orders

The SFC has launched a new [public register of cold shoulder orders](#) to facilitate compliance by intermediaries when dealing with clients who are subject to these sanctions. This new register contains the names of those who are the subjects of current cold shoulder orders

made by the courts, the Market Misconduct Tribunal ("MMT") or the Takeovers Panel.

Restructuring and Insolvency

21. Official Receiver's Office Circular 1/2015

The Official Receiver's Office ("ORO") has issued **ORO Circular No. 1/2015** on special and ordinary bank accounts under section 202(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32). This supersedes ORO Circular No. 3/2014 and increases the amount that liquidators can request as payment on account in relation to an ordinary bank account, and also the authorized amount that a liquidator can keep in the account for the immediate purposes of the liquidation, from HK\$10,000 to \$15,000.

22. Institute Issues Submission on Proposals for an Effective Resolution Regime for Financial Institutions

The Institute's Restructuring and Insolvency Faculty Executive Committee ("RIFEC") issued a **submission** on this second phase consultation conducted by the Financial Services and the Treasury Bureau, together with the financial services regulators. Resolution is seen as a means of dealing with a systemically important financial institution in financial distress, rather than allowing it to go directly into an insolvency process, which could have more adverse repercussions for the wider financial system. In the submission, RIFEC commented on a number of aspects of the proposals, including the application of the proposed principle that no creditor should be worse off under a resolution arrangement than in a liquidation.

Taxation

23. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Newspaper notices about **filing tax return on time** and **tax obligations of taxpayers and employers**

- The gazette of **three orders on avoidance of double taxation agreements**

Legislation & Other Initiatives

24. Anti-Money Laundering Notices

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

- **Government notice 3089**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- **Government notice 3090**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Libya) Regulation 2011.
- **Government notice 3269**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 3270**: A list of relevant persons has been specified under the United Nations Sanctions (Central African Republic) Regulation 2015.
- **Government notice 3271**: A list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2015.
- **Government notice 3664**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Legal notice 82**: The United Nations Sanctions (Central African Republic) Regulation 2015 has been published in the Gazette.
- **Legal notice 83**: The United Nations Sanctions (Democratic Republic of the Congo) Regulation 2015 has been published in the Gazette.

- **Legal notice 104:** The United Nations Sanctions (South Sudan) Regulation 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 recently revised **Anti-money Laundering Bulletin 1**, “Requirements on anti-money laundering, anti-terrorist financing and related matters”, and the revised **supplement** on suspicious transaction reporting.

Useful Resources

25. 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.

26. Other Publications

(i) HKEx has published:

- New listing decisions:
 - Whether HKEx would direct the resumption of trading in a listed company’s shares under Rule 6.07 (**HKEx-LD87-2015**)
 - Whether a listed company would have sufficient operations or assets under Rule 13.24 after a very substantial disposal (**HKEx-LD88-2015**)
 - Whether a listed company’s proposed issue of warrants to certain members of senior

management was subject to the requirements of Chapter 17 (**HKEx-LD89-2015**)

- Whether a listed company was allowed to use the general mandate for placing of warrants to third party investors (**HKEx-LD90-2015**)

- Revised listing decisions relating to qualification of company secretary (**HKEx-LD72-1** and **HKEx-LD72-2**)
- A new guidance on issue of convertible securities by listed issuers (**HKEx-GL80-15**)
- Updated FAQs:
 - **FAQ series 1:** Listing Rule Amendments Relating to Corporate Governance and Listing Criteria Issues (including withdrawal of FAQs which cease to be applicable)
 - **FAQ series 7:** Rule Requirements relating to Notifiable Transactions, Connected Transactions and Issues of Securities by Listed Issuers (withdrawal of FAQs which cease to be applicable)
 - **FAQ series 28:** Rule Requirements Relating to Connected Transactions
- **Report** on initial public offering applications, delisting and suspensions (as at 29 May)

- (ii) SFC has published a **circular** reminding intermediaries on full compliance with the “Know Your Client” and account opening procedures requirements under the Code of Conduct after it had identified certain deficiencies and an unsatisfactory practice by licensed corporations during recent supervisory reviews.

(iii) Other publications:

- **Q&A: How to determine a client's price sensitivity** by Journal of Accountancy
- **IPO Watch Asia 2014** by PwC
- **Private Equity Spotlight – Exploring regional trends** by KPMG
- **Why capital expenditures need more CFO attention** by McKinsey & Company
- **China needs millions more accountants to raise standards** by Reuters