



TechWatch

News at a glance

Issue 154 • August 2015

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 >. Click [here](#) for past issues.

Contents

Financial Reporting, Auditing and Ethics

New!

1. Joint HKICPA and IFRS Foundation IFRS Conference 2015
2. New Technical Learning and Support Programme from August to November

Members' Handbook

3. Handbook Update No. 171

Financial Reporting

4. The Institute's Financial Reporting Standards Committee Meeting Minutes
5. Institute Comments on IASB ED

Audit & Assurance

6. The Institute's Auditing and Assurance Standards Committee Meeting Minutes
7. Invitation to Comment on IAASB ED
8. Revised AATB 1

Ethics

9. The Institute's Ethics Committee Meeting Minutes

International Meetings

10. IASB
11. IFRS Interpretations Committee
12. IASB ASAF
13. IAASB
14. IESBA

Useful Resources

15. Publications

Comment Due Dates

Advocacy and Practice Development/ Member Support

Professional Accountants in Business

16. IFAC Advises Accountants to Contribute to Organizations' Sustainability Challenges
17. Results of HKEx Review of Listed Issuers' Financial Reports
18. HKEx Consultation on Proposed Changes to the ESG Guide

Corporate Finance

19. SFC Proposes Changes to Financial Resources Rules

Taxation

20. Announcements by the Inland Revenue Department

Legislation & Other Initiatives

21. Land Registry Launches Land Register e-Alert Service
22. Companies Registry Updates
23. Anti-Money Laundering Notices

Useful Resources

24. Library Resources
25. Other Publications

Financial Reporting, Auditing and Ethics by:
Christina Ng (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. Joint HKICPA and IFRS Foundation IFRS Conference 2015

The Institute and the IFRS Foundation will jointly host an IFRS Conference (12-13 October) and an IFRS for SMEs workshop (13 October afternoon) at the JW Marriott Hotel, Hong Kong.

Upon request from members, the early-bird promotion for the conference and workshop has been extended to 31 August. Register now to secure the opportunity to speak to, and learn from, the IASB and experts in business and in practice directly (information about all speakers can be found [here](#)), and save up to HK\$1,900 in early booking discount. Members can also enjoy a further 10% discount for registrations of group of 3 or more delegates from the same organization.

The Conference will discuss:

- 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.

The workshop will cover the application of the SME hierarchy, implementation issues of the revised *IFRS for SMEs* using case studies, and considerations for future amendments to the *IFRS for SMEs*.

Click [here](#) for details of the conference, workshop and registration.

2. New Technical Learning and Support Programme from August to November

The Institute will run a series of technical update evenings ("TUE"), workshops and seminars on accounting and auditing from August to November 2015:

- **Practical Issues in Valuation – Using the Work of an Auditor's Expert under HKSA 620**
- **TUE – Accounting for a Convertible Instrument – a Holder and an Issuer**
- **TUE – Accounting for a Convertible Instrument – Common Issues Encountered and Structuring with Deliberations**
- **Audit Practice Manual Application Workshop**
- **Workshop for Audit Manager**
- **Workshop for Audit Staff**
- **Workshop on Quality Control**
- **ICAC Workshop on Ethical Decision Making**
- **Workshops on a successful listing in Hong Kong**

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. 171

Update No. 171 contains revised Code of Ethics for Professional Accountants (the "HK Code"). The HK Code has been updated to reflect the changes addressing certain non-assurance services provisions for audit and assurance clients and other assurance clients.

The changes will be effective on 15 April 2016, except for the changes to Section 290 which will be effective for audits of financial statements for periods commencing on or after 15 April 2016.

The HK Code has also been updated to incorporate the change to the definition of 'Engagement Team', which was previously set out in Appendix 3 of the HK Code as it was not yet effective, in the main body of the HK Code. Such change is effective for audits of financial statements for periods ended on or after 15 December 2014.

Professional Ethics in Liquidation and Insolvency has been revised solely to update the reference to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Financial Reporting

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

The [minutes](#) for the FRSC meeting held on 9 June 2015 is now available and covers the following key items:

- HKICPA's submission on the IASB ED/2015/1 *Classification of Liabilities* (Proposed amendments to IAS 1);
- 2015 Amendments to the *IFRS for SMEs*;
- IASB Exposure Drafts on the enhancement of the IASB's *Conceptual Framework*; and
- A report from the Working Group on Companies Ordinance application issues on financial reporting.

5. Institute Comments on IASB ED

The Institute [commented](#) on IASB ED/2015/2 *Effective Date of IFRS 15 Revenue from Contracts with Customers*.

The Institute is supportive of the proposal to defer the effective date of IFRS 15. In particular, the Institute considers that a one-year deferral would help improve the quality of implementation of IFRS 15 in light of the IASB's

ED/2015/6 *Clarifications to IFRS 15*, issued on 30 July 2015.

The Institute notes that, in May 2015, the FASB proposed clarifications and new guidance to its new revenue standard to address implementation issues in the US that were raised at the IASB and FASB's joint Transition Resource Group for Revenue Recognition. The Institute also notes that the IASB intends to propose some, but not all, of the amendments that the FASB has. The Institute is aware that the IASB's and FASB's revenue standards are virtually the same. However, the Institute is concerned that the use of non-converged language or dissimilar amendments put through to the IASB and FASB revenue standards would lead to divergence in application between IFRS and US GAAP users. Accordingly, the Institute recommends that the IASB exposes similar proposals as the FASB has, as long as those proposals would improve the implementation and application of IFRS 15, and are consistent with the principles of IFRS 15.

Audit & Assurance

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

The [minutes](#) for the AASC meeting held on 16 June 2015 is now available and covers the following key items:

- ISAE 3400 *The Examination of Prospective Financial Information*;
- Revised PN 730 *Guidance for Auditors Regarding Preliminary Announcements of Annual Results*;
- Proposed HKSAs on Auditor's Reporting and Additional Footnote in Proposed HKSA 700 (revised);
- Proposed HKSA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*;
- Annual Auditing Update Conference 2015; and

- Draft Alert and Business Cooperation Agreement.

7. Invitation to Comment on IAASB ED

The Institute has issued an **Invitation to Comment** on IAASB ED *Proposed Amendments to the IAASB's International Standards – Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations*, and requested for comments to the Institute by **21 September 2015**.

The IAASB issued the ED to propose limited amendments to the IAASB's International Standards in response to the IESBA's May 2015 Re-Exposure Draft, *Responding to Non-Compliance with Laws and Regulations*.

The IAASB believes that amendments are needed to the IAASB's International Standards in the public interest to enable them to operate in concert with the IESBA standards and without confusion due to the many jurisdictions that utilize both.

The focus of the ED is proposed amendments to ISA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*, with less extensive changes proposed to seven other standards. The amendments, which are limited in nature, do not explicitly duplicate in detail all the specific requirements in the IESBA *Code of Ethics for Professional Accountants* (the "Code"), as this allows for flexibility when ethical codes other than the Code are applied. Rather, the IAASB's proposals seek to acknowledge the enhancements that will be made by the IESBA in the Code, and clarify and emphasize key aspects of the IESBA's proposals in the IAASB's International Standards.

8. Revised AATB 1

Auditing and Assurance Technical Bulletin 1 Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting has been revised to add example long form report arrangement letter.

Ethics

9. The Institute's Ethics Committee Meeting Minutes

The **minutes** for the EC meeting held on 18 March 2015 is now available and covers the following key items:

- Report and update on international meetings;
- IESBA ED on Proposed Changes to Part C of the Code *Addressing Presentation of Information and Pressure to Breach the Fundamental Principles*;
- Revision of Part D of the Code and Statement 1.303 in response to the new Companies Ordinance; and
- Revision to Ethics Circular 1.

International Meetings

10. International Accounting Standards Board

The IASB met on 20-23 July 2015 and discussed the following topics:

- Insurance Contracts
- IFRS Taxonomy
- IFRS Implementation Issues
- Rate-regulated Activities
- Dynamic Risk Management
- Revenue from Contracts with Customers
- Provisions, Contingent Liabilities and Contingent Assets
- Fair Value Measurement
- Financial Instruments with Characteristics of Equity
- Agenda Consultation

Click to view the [IASB Update](#) for this meeting.
The IASB next meets on 21-25 September 2015.

11. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 14 July 2015 and discussed issues related to the following standards:

- IAS 2 *Inventories* / IAS 38 *Intangible Assets*
- IAS 12 *Income Taxes*
- IAS 23 *Borrowing Costs*
- IFRS 2 *Share-based Payment*
- IFRS 11 *Joint Arrangements*
- IFRIC 14 *IAS 19-The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Click to view the [IFRIC Update](#) for this meeting.
The IFRS Interpretations Committee next meets on 8-9 September 2015.

12. IASB Accounting Standards Advisory Forum

The IASB ASAF met on 16-17 July 2015 and discussed the following key topics:

- Insurance Contracts
- Discount Rates
- Conceptual Framework
- Provision and contingent liabilities
- Disclosure Initiative
- Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging
- Pollutant Pricing Mechanisms
- Rate-regulated Activities
- Revenue from Contracts with Customers

The Asian-Oceanian Standard-Setters Group (represented by the Institute) is a member of the IASB ASAF. The views and concerns of Hong Kong Stakeholders on most of the key topics above were sought and represented at the ASAF meeting.

The IASB ASAF next meets on 1-2 October 2015. Click [here](#) for details of the October meeting and the meeting summary for the July 2015 meeting.

13. International Auditing and Assurance Standards Board

The IAASB next meets on [21-25 September 2015](#).

14. International Ethics Standards Board for Accountants

The IESBA next meets on [15 -16 September 2015](#).

Useful Resources

15. Publications

Deloitte published a [guide](#) to provide an overview of current standards and interpretations.

The IASB Chairman delivered a [speech](#) on historical cost versus fair value measurement.

Comment Due Dates

Comments to the Institute on the following EDs are due by:

14 August 2015: IESBA ED on *Responding to Non-Compliance with Laws and Regulations*

14 September 2015: IASB ED/2015/3 *Conceptual Framework for Financial Reporting* and IASB ED/2015/4 *Updating References to the Conceptual Framework*

21 September 2015: IASB ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan* (Proposed amendments to IAS 19 and IFRIC 14)

21 September 2015: IAASB ED Proposed Amendments to the IAASB's International Standards – Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations

Advocacy and Practice Development/ Member Support

Professional Accountants in Business

16. IFAC Advises Accountants to Contribute to Organizations' Sustainability Challenges

The International Federation of Accountants ("IFAC") released a briefing titled [Accounting for Sustainability. From Sustainability to Business Resilience](#) on 29 July 2015 to support accountants in developing a greater awareness of how they can help their organizations address issues of sustainability and more fully incorporate these issues into business decisions.

This briefing clarifies the important role accountants can, and must, play in embracing sustainability to ensure that the organisations they serve are resilient by linking sustainability to a broader business agenda and strategy. In addition to highlighting the key elements of developing a sustainable strategy, and how professional accountants can help address opportunities and challenges, the briefing includes references to some of the many resources and tools available to professional accountants to help develop their knowledge and skill set.

All listed references are available on the [Global Knowledge Gateway](#) (under Sustainability in the subtopic "business resilience").

17. Results of HKEx Review of Listed Issuers' Financial Reports

Hong Kong Exchanges and Clearing ("HKEx") has recently published a [report](#) summarizing key findings from its review of 100 periodic financial reports released by listed issuers between October 2013 and April 2015. The report highlights several key areas where listed issuers can continue to improve their financial disclosure, including:

- Take note of the Listing Rule disclosure requirements relating to financial information.
- Provide additional information on significant events or material balances and transactions.
- Provide clear, understandable and entity-specific information in relation to disclosure of judgments and estimates in applying the accounting policies.
- State clearly if the company is not an early adopter of new/revised accounting standards that have been issued but are not yet effective, and provide the known or reasonably estimable information needed to assess the possible impact that application of the new/revised standards will have on its financial statements in the period of their initial application.
- Ensure that robust asset impairment review processes are in place and improve the quality of such disclosure, particularly where the recoverable amount is based on value in use.
- Provide entity-specific information rather than boilerplate text in preparing financial risk information.
- Follow the accounting disclosure requirements regarding fair value measurements.

Members, in particular directors and those responsible for preparing annual reports of listed issuers, are encouraged to take note of and act on the observations and recommendations discussed in the report.

18. HKEx Consultation on Proposed Changes to the ESG Guide

On 17 July, HKEx published a [consultation paper](#) to seek views on proposed amendments to its Environmental, Social and Governance ("ESG") Reporting Guide ("Guide") (Appendix 27 to the Main Board Listing Rules and Appendix 20 to the GEM Listing Rules).

Comments (by submitting the [questionnaire](#)) are requested by **18 September 2015**.

The key proposals in the consultation paper are:

- Require issuers to state in their annual report or ESG report whether they have complied with the "comply or explain" provisions of the Guide for the relevant financial year.
- Revise the introductory section of the Guide to provide more guidance on reporting and to be more in line with international standards.
- Re-arrange the Guide into two subject areas – "Environmental" and "Social".
- Upgrade the general disclosure under each of the aspects of the Guide to "comply or explain" and align the wording with the directors' report requirements under the Companies Ordinance (Cap 622).
- Upgrade the key performance indicators under the "Environmental" subject area to "comply or explain".
- Revise the wording of the recommended disclosure to bring it more in line with international standards by incorporating disclosure of gender diversity.

Members who wish to submit views on this consultation via the Institute, please send them to commentletters@hkicpa.org.hk before **31 August 2015**.

Corporate Finance

19. SFC Proposes Changes to Financial Resources Rules

On 17 July, the Securities and Futures Commission ("SFC") released a [consultation paper](#) on proposed changes to the Securities and Futures (Financial Resources) Rules ("FRR") relating to capital and other prudential requirements for licensed corporations engaged in over-the-counter ("OTC") derivatives activity.

The proposals aim to ensure that licensed corporations maintain their capital and liquidity at levels which are commensurate with the risks they undertake pertaining to derivative businesses, and to encourage them to adopt more advanced risk management standards.

The SFC also proposes certain changes to non-OTC derivatives-related FRR requirements applicable to licensed corporations. These include lowering the haircut percentages for certain types of shares and funds and introducing measures to better facilitate third-party clearing by general clearing brokers.

The consultation period ends on **16 October 2015**. Members who wish to submit views on this consultation via the Institute, please send them to <commentletters@hkicpa.org.hk> before **30 September 2015**.

Taxation

20. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- **Suspended jail sentence and fine for two taxpayers convicted of falsely claiming deductions of expenses of self-education**
- **The passage of the Inland Revenue (Amendment) (No. 2) Bill 2015**, aiming to give effect of one-off measures to reduce salaries tax, tax under personal assessment and profits tax for the year of assessment 2014-15 by 75 per cent, subject to a ceiling of \$20,000 per case
- **The gazette of the Inland Revenue (Amendment) (No.2) Ordinance 2015**, seeking to extend profits tax exemption for offshore funds to private equity funds
- **List of qualifying debt instruments as at 30 June 2015**

Legislation & Other Initiatives

21. Land Registry Launches Land Register e-Alert Service

The Land Registry **has launched** an e-alert service for property owners' subscription to monitor the land registers of their own properties. Click [here](#) to complete the application form for subscription to the e-alert service.

22. Companies Registry Updates

- (i) Statistics for first half of 2015

The Companies Registry ("CR") released statistics for the first half of 2015 on 12 July 2015. Refer to the [press release](#) and the [statistics section](#) of the CR website for details.

- (ii) Delivery of annual returns under the Companies Ordinance

The CR issued [external circular No. 2/2015](#) on 31 July 2015 to remind companies, in particular public companies and companies limited by guarantee, of the requirements under section 662 of the Companies Ordinance (Cap 622) to deliver annual returns to the Registrar of Companies for registration.

23. Anti-Money Laundering Notices

Members may wish to note the following notices and publications in relation to AML/CFT:

- **Government notice 4908**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 5170**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 5321**: A list of relevant persons has been specified under the United Nations Sanctions (Côte d'Ivoire) Regulation 2015.

- **Government notice 5322:** A list of relevant persons has been specified under the United Nations Sanctions (South Sudan) Regulation.
- **Government notice 5323:** A list of relevant persons has been specified under the United Nations Sanctions (Yemen) Regulation 2015.
- **Government notice 5324:** A list of designated persons has been specified for the purpose of arms embargo measures under the United Nations Sanctions (Yemen) Regulation 2015.
- **Legal notice 166:** The United Nations Sanctions (Yemen) Regulation 2015 has been published in the Gazette.
- **Legal notice 167:** The United Nations Sanctions (Libya) Regulation 2011 (Amendment) Regulation 2015 has been published in the Gazette.
- **Legal notice 168:** The United Nations Sanctions (Côte d'Ivoire) Regulation 2015 has been published in the Gazette.
- The Financial Action Task Force ("FATF") issued a statement on **Improving global AML/CFT compliance: on-going process**, identifying jurisdictions with strategic AML/CFT deficiencies, for which they have developed an action plan with the FATF.
- **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

24. 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.

25. Other Publications

- (i) HKEx has published:
 - An updated guidance on documentary requirements and administrative matters for Collective Investment Schemes applications (**HKEx-GL79-14**)
 - **Report** on initial public offering applications, delisting and suspensions (as at 31 July)
- (ii) SFC has published:
 - **Fund Management Activities Survey 2014** and **key findings**, which shows that fund management business in Hong Kong reached a record high of \$17,682 billion, up 10.5%, as of the end of 2014. The findings also indicate that Hong Kong remained a preferred platform for international investors, who accounted for 71% of the fund management business.
 - Research Paper No. 57: **Half-yearly Review of the Global and Local Securities Markets**
 - Mainland-Hong Kong Mutual Recognition of Funds Symposium (3 July 2015)
 - **Synopsis**
 - Presentational materials:
 - ✧ **SFC**
 - ✧ China Securities Regulatory Commission – **1 of 2** and **2 of 2**

(iii) Other publications:

- **Private Equity Ideas for Hong Kong...and Beyond** by Hong Kong Venture Capital and Private Equity Association Journal 2nd Issue
- **Hong Kong IPO Market Update - July 2015** by KPMG
- **Why International Valuations Standards Matter to SMEs Now More Than Ever Before** by International Valuation Standards Council
- **A Sign of Things to Come: Securities and Futures Trends Analysis** by Dechert LLP
- **Growing beyond the core business** by McKinsey & Company