



TechWatch updates you on technical developments in financial reporting, auditing, ethics, regulation and business. The Institute welcomes your comments, emailed to < commentletters@hkipa.org.hk >. Click [here](#) for past issues.

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Standard Setting Developments

Local Updates

1. Invitations to Comment

The Institute is seeking comments on:

- The IAASB's [Consultation Paper](#) on Extended External Reporting by **21 May 2019**.
- The IAASB's [Exposure Drafts](#) on Quality Management for Firms and Engagements by **24 May 2019**.
- The IESBA's [Exposure Draft](#), Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised) by **27 May 2019**.
- The Institute is seeking [comments](#) the IASB Exposure Draft on *Interest Rate Benchmark Reform* by **3 June 2019**.
- The IAASB's [Discussion Paper](#) on Audits of Less Complex Entities by **12 August 2019**.

2. Invitation to observe meetings of the Hong Kong Insurance Implementation Support Group

[Register](#) to observe meetings of the HKIISG which discusses hot topics on HKFRS 17 *Insurance Contracts*. Meeting papers and summaries can be found [here](#). The next HKIISG meeting will be held on **29 May 2019**.

International Updates

3. International Updates

Audit and assurance

- **IAASB proposed standards on Quality Management**
 - [Webcast Series](#): Firm's Risk Assessment Process
 - [Video](#): How the IAASB's Proposed Quality Management Standards Are Scalable for SMPs

- **IAASB Publication**: ISA 540 (Revised) Implementation Support: Flow Charts and Diagram

Ethics

- **IESBA Webinar on the [The Revised and Restructured Code](#)**
- **IESBA eCode**
 - [Webinar](#): Introducing the eCode
 - [Publication](#): Preparing for the eCode
- **IESBA [Strategy and Work Plan](#)**

Financial Reporting

- **April 2019 IASB [Update](#), [Podcast](#), and [Investor's Update](#)**
- **April 2019 IASB IFRS 17 Transition Resource Group [Podcast](#)**

Technical Learning and Support

4. New Programmes

Click on the title below to register:

- [Seminar: Update on Revised HKSA 540 Auditing Accounting Estimates and Related Disclosures and Consequential Amendments to Other Hong Kong Standards](#) (28 May 2019)
- [Seminar on IFRS Standards for SMEs](#) (31 May 2019)
- [Workshops on HKFRS 15 Revenue from Contracts with Customers](#) (23 May and 25 June 2019)
- [Seminar and Workshops on HKFRS 16 Leases](#) (29, 30 May and 27 June 2019)

Useful Resources

5. Institute's Technical Resource Centres

Access the Institute's comprehensive resource centres:

- [New and Major Standards](#)



- [ICAEW's International Accounting, Audit and Ethics Content](#)
- [New Companies Ordinance](#)
- [HKFRS for Private Entities](#)
- [SMP and SME](#)

6. [LinkedIn](#)

Follow our [LinkedIn](#) for key developments in financial reporting, auditing and ethics.

Advocacy and Practice Development/Member Support

Professional Accountants in Business

7. [Machine Learning: More Science than Fiction](#)

The Association of Chartered Certified Accountants has recently [published](#) a report which offers an accessible, practical introduction to machine learning, and how it is being adopted within the accountancy profession.

In addition to an overview of what it is, the [report](#) also explores issues of ethics and other concerns pertinent to the public interest.

8. [ICAC's Powers for Offences Other than Bribery and Corruption](#)

Under the Independent Commission Against Corruption Ordinance, the ICAC may investigate and exercise its powers with respect to other offences such as theft, fraud and use of false documents during its investigation of a bribery and corruption offence under the Prevention of Bribery Ordinance.

This [article](#) demonstrates, with reference to a case study, how the Theft Ordinance, the Crimes Ordinance and the Prevention of Bribery Ordinance may interlink and operate together to be applied by the ICAC to combat corruption transactions that involve fraud and use of deceiving false documents.

Corporate Finance

9. [Institute Comments on Proposals for Revising the Operational Model for Implementing an Uncertificated Securities Market in Hong Kong \(USM\)](#)

The Institute issued a [submission](#) on 3 May 2019 responding to the [proposals](#) by Securities and Futures Commission (SFC), Hong Kong Exchanges and Clearing Limited (HKEX) and the Federation of Share Registrars Limited (FSR) for revising the operational

model for implementing an USM in Hong Kong, and related matters.

The Institute, in principle, supports the proposals in order to maintain Hong Kong's standing as an international capital market. At the same time, the Institute also raises questions on certain aspects of the proposals, including how full dematerialization will be implemented and the impact on traditional retail investors, used to holding their own share certificates; the length of the transition period; the initial and ongoing cost implications for investors under the new scripless system; the integrity of the system, which will give much more responsibility to share registrars; and, ultimately, whether investors will ultimately reap the benefits of the improved efficiencies of the new system.

10. Joint Consultation of the Hong Kong Monetary Authority (HKMA) and the SFC to the Over-the Counter (OTC) Derivatives Regime

On 26 April 2019, the HKMA and the SFC jointly issued a [Consultation Paper](#) on further enhancements to the OTC derivatives regulatory regime in Hong Kong.

The regulators propose that transactions to be submitted to the Hong Kong Trade Repository for the reporting obligation would be required to be identified by unique transaction identifiers with the structure and format as set out in the Technical Guidance issued by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions.

The regulators also propose to remove 17 jurisdictions from the list of designated jurisdictions for the masking relief of the reporting obligation in view of the recent clarification by the Financial Stability Board, and to update the list of Financial Services Providers under the OTC derivatives clearing regime.

The deadline for responding to the Consultation Paper is **25 May 2019** (on the updated list of Financial Services Providers) and **25 June 2019** (for other proposals) respectively. Please refer to the [press release](#) for details.

11. SFC's Consultation Conclusions on the Proposed Guidelines for Securities Margin Financing Activities

The SFC has published [consultation conclusions](#) on [proposed Guidelines for Securities Margin Financing Activities](#). The SFC's initiative to provide guidance on the risk management practices expected of brokers when they provide securities margin financing was generally supported by the respondents.

According to the guidelines, the maximum total margin loans-to-capital multiple brokers can adopt is five times to avoid excessive leverage. The concentration risks posed by holding individual or connected securities as collateral and by significant exposure to margin clients should also be controlled. Further, brokers are required to set prudent triggers for margin calls and strictly enforce margin call policies. Guidance is provided to help brokers set prudent haircut percentages for securities acceptable as collateral and conduct stress testing to assess the financial impact of their securities margin financing activities. A summary of the consultation conclusions is set out in the [press release](#).

The guidelines were [gazetted](#) on 4 April 2019 and will take effect on 4 October 2019.

Taxation

12. Announcements by the Inland Revenue Department ("IRD")

Members may wish to be aware of the following matters:

- **DIPN 5 (Revised) & DIPN 55**
The IRD has issued the [Departmental Interpretation and Practice Notes No. 5 \(Revised\)](#) on profits tax deductions for various kinds of expenditure. The IRD has also issued [Departmental Interpretation and Practice Notes No. 55](#) to explain the eligibility for 100% tax deductions, or enhanced deductions of up to 300%, on research and development expenditure.
- [Issues of tax returns for 2018/19](#)
- Legislative Council questions on [regulation of virtual asset investment activities](#)

- **Completion of profits tax returns and the supplementary forms**
The Inland Revenue Department provided **further clarifications** on the completion of **supplementary form S1 Person electing for 2-tiered profits tax rates** of the 2018/19 profit tax return.
- **Stamp Duty statistics (March 2019)**

13. Institute hosts Global Accounting Alliance ("GAA") Tax Directors

The Institute hosted a three-day meeting of **GAA** tax heads in Hong Kong and Beijing during April 15-17.

During that time, the tax heads were briefed on key issues in Hong Kong, cross-border and Mainland tax. They also held meetings with Legislative Council accountancy functional constituency representative, Kenneth Leung, and the Belt and Road Office of the Hong Kong SAR Government, among others.

The scope of work of the GAA Tax Director Group includes:

- coordinating and learning from shared experiences
- sharing and disseminating best practices
- providing advocacy on significant issues of common interest and concern

The group is one of the only tax-dedicated bodies providing a global voice on tax for the accounting profession. It adopts a global perspective to ensure that the work done in the member bodies' individual countries is better informed and better focused.

The GAA itself was formed in November 2005 and is an alliance of 10 leading professional accountancy bodies in significant capital markets. It was created to promote quality services, share information and collaborate on important international issues. The GAA works with national regulators, governments and stakeholders, through member-body collaboration, articulation of consensus views, and working in collaboration where possible with other international bodies, especially the International Federation of Accountants. The GAA represents a total of close to one million accountants in over 180 countries around the globe.

Legislation & Other Initiatives

14. Anti-Money Laundering Notices

For the current lists of terrorists, terrorist associates and relevant persons/ entities under United Nations ("UN") sanctions, members should refer to **the Institute's AML webpage** which is updated regularly. The United Nations Sanctions webpage of the **Commerce and Economic Development Bureau** contains consolidated lists of UN sanctions currently in force in Hong Kong.

15. Anti-Money Laundering/ Counter-Terrorist Financing ("AML/CFT") Guidance

For mandatory guidelines and information from the Institute on the AML/CFT requirements for members, see the Institute's **"Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants"**.

Members who are licensed to provide trust or company services should also see the **Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers**, by Companies Registry.

Members should ensure that they are aware of the **Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report** (in particular Chapter 6, covering designated non-financial businesses and professions), which indicates ML/TF risks and vulnerabilities in the Hong Kong market.

Useful Resources

16. Other Publications

- (i) The HKEX has published:
 - **Report** on initial public offering applications, delisting and suspensions as at 30 April 2019
 - **Updates and Streamlines Guidance Materials**



(ii) The Financial Reporting Council has published:

➤ **2018 Annual Report**

(iii) Other publications:

➤ **Bringing digital to the boardroom - The impact of digital transformation on companies' boards** by Deloitte Consulting LLP

➤ **What makes a great CFO** by Financial Management

➤ **The 5 traits of a great manager** by Journal of Accountancy

➤ **The Rise of Artificial Intelligence: A Critical Inflection Point for the Accounting Profession** by CPA.com

➤ **Prepare Now for Next-Generation Cyber Threats** by CFO.com

➤ **The Future for Small Firms** by AICPA

➤ **How to Plan a Successful Exit Strategy for Your Accounting Practice** by In the Black