



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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Standard Setting Developments

Local Updates

1. Financial Reporting Standards Committee Minutes

Minutes of the **253rd meeting** are now available.

2. Members' Handbook Update No. 235

Members' handbook **Update No. 235** relates to the issuance of the revised practice review statements 1.400 *Explanatory Foreword* and 1.401 *Review Procedures and Conduct of Members*. The statements are revised to reflect mainly the following changes in the practice review scope and procedures of the HKICPA's practice review programme:

- Scoping out Public Interest Entities (PIE) engagements completed after 1 October 2019 by a PIE auditor for practice review following the enactment of the Financial Reporting Council (Amendment) Ordinance;
- Implementing an Anti-Money Laundering and Counter-Terrorist Financing ("AML") compliance monitoring programme to evaluate a practice unit's level of compliance with the Guidelines on AML for Professional Accountants included in the Code of Ethics;
- Adding the procedures to be adopted during the conduct of a desktop review introduced since 2014 and an AML compliance review introduced since 2018.

3. Invitations to Comment

The Institute is seeking comments on:

- **Exposure Draft** *Proposed Amendments to the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard* by **31 January 2020**

- **IASB Exposure Draft ED/2019/7** *General Presentation and Disclosures* by **22 May 2020**

4. Ethics Survey

Complete the Institute's Ethics Committee **survey** on the ethical attitudes of professional accountants in Hong Kong and how the Institute's *Code of Ethics for Professional Accountants* impacts their professional activities.

5. Illustrative examples on IPO sponsor fee income

The Institute has published **Illustrative examples on IPO sponsor fee income** to illustrate application of the principles in HKFRS 15 *Revenue from Contracts with Customers*. These examples should be read in conjunction with the Institute's previously-issued **Questions & Answers on recognition of IPO sponsor fee income under HKFRS 15**.

International Updates

6. Audit and Assurance

- IAASB's **Feedback Statement and Way Forward** for Audits Of Less Complex Entities
- IAASB December 2019 Meeting **Podcasts and Highlights**

7. Ethics

- IESBA December 2019 Meeting **Highlights Podcast**
- IESBA **revisions** to Part 4B of the *International Code of Ethics for Professional Accountants (Including Independence Standards)* for alignment with ISAE 3000 (Revised)

8. IFRS Updates

- December 2019 IASB **update** and **podcast**

- IFRS 17 *Insurance Contracts* [podcast](#) on December 2019 IASB meeting
- November 2019 IFRS Interpretations Committee [update](#) and Q4 2019 [podcast](#)

Technical Learning and Support

9. New Programme

Click on the title below to register for the e-seminar/workshop:

- [HKFRS 15: Sharing application experience \(Re-run\)](#) (10 February 2020)
- [Workshop on IFRS/HKFRS 17 – General Insurance \(Re-run\)](#) (2 and 5 March 2020)
- [Workshop on IFRS/HKFRS 17 – Life Insurance: deep dive application \(Re-run\)](#) (9 March 2020)
- [Definition of a Business \(Amendments to HKFRS 3 *Business Combinations*\) - \(Re-run\)](#) (22 April 2020)
- [Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard \(E-seminar\)](#)

Useful Resources

10. 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](#)

11. [LinkedIn](#)

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

Advocacy and Practice Development/ Member Support

Professional Accountants in Business

12. COSO Guidance on Managing Cyber Risks

The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), in collaboration with Deloitte Risk & Financial Advisory, have recently [published](#) a new guidance entitled [Managing Cyber Risks in a Digital Age](#).

The guide, aimed at board directors, audit committee members, executive management and cyber practitioners, discusses how organizations can apply [COSO's Enterprise Risk Management – Integrating with Strategy and Performance \(“ERM Framework”\)](#), one of the most widely used risk management frameworks, to protect themselves against cyberattacks. It also provides insights into how organizations can leverage the five components and 20 principles of the ERM Framework to identify and manage cyber risks.

Small and Medium Practices

13. IAASB's Audits of Less Complex Entities: Feedback Statement and Way Forward

On 18 December 2019, International Auditing and Assurance Standards Board (“IAASB”) released a [Feedback Statement](#) sharing what the Board has heard in response to its recent Discussion Paper: [Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs](#).

The Discussion Paper, and related outreach activities, solicited perspectives of different stakeholder groups on the issues and challenges surrounding the audits of less complex entities. Further information gathering activities will continue until June 2020, when IAASB will decide the way forward.

The Institute has also submitted [comments](#) on the Discussion Paper to IAASB.

Corporate Finance

14. HKEX Seeks Views on Review of Listing Regime for Debt Issues to Professional Investors Only

On 6 December 2019, the Stock Exchange of Hong Kong (“HKEX”) released a [consultation paper](#) to seek views on review of listing regime for debt issues to professional investors only. Please refer to the [press release](#) for details.

The key proposals are as follows:

- Raising the existing issuer’s minimum net assets requirement from HK\$100 million to HK\$1 billion
- Introducing a minimum issuance size of HK\$100 million
- Requiring issuers to state explicitly in the listing document that the intended investor market in Hong Kong is professional investors only
- Requiring publication of listing documents on HKEX’s website on the listing date
- HKEX to issue disclosure guidance on certain special features in Chapter 37 debt securities and other disclosure-related matters, indicating what would be customarily expected by target investors to be included in the listing documents
- Introducing other Listing Rules amendments to enhance the regulatory oversight over issuers and guarantors’ in terms of their continuing obligations

The deadline for responding to the consultation paper is **7 February 2020**. Members are welcomed to submit any views or comments on the proposals in the consultation paper, together with their membership number and contact details, to the Advocacy & Practice Development Department on or before **24 January 2020**.

15. HKEX to Enhance Pre-Opening Session and Volatility Control Mechanism in the Securities Market

HKEX issued the [consultation conclusions](#) on the proposed enhancements to the pre-opening session (“POS”) and volatility control mechanism (“VCM”) in the securities market on 13 December 2019.

In order to provide adequate preparation lead-time to the market, VCM enhancements are proposed to be implemented first in the second quarter of 2020. After completion of the development and testing of relevant technical changes, POS enhancements are proposed to be implemented in the second half of 2020.

Please also refer to the [consultation paper](#), [consultation conclusions](#) and [press release](#) for details.

16. SFC Proposes Changes to the Open-Ended Fund Companies Regime

On 20 December 2019, the Securities and Futures Commission (“SFC”) published a [consultation paper](#) on enhancements to the open-ended fund companies (“OFC”) regime.

The proposed changes include (i) allowing licensed or registered securities brokers to act as custodians for private OFCs; and (ii) expanding the investment scope for private OFCs to include loans and shares and debentures of Hong Kong private companies. The SFC, at the same time, suggested to introduce a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong and require OFCs to keep a register of beneficial shareholders to enhance anti-money laundering and counter-terrorist financing measures.

The deadline for responding to the SFC on the consultation paper is **20 February 2020**. Please refer to the [press release](#) for details.

Members are welcome to submit any views or comments on the proposals in the consultation paper, together with their membership number and contact details, to the Advocacy & Practice

Development Department on or before **31 January 2020**.

Corporate Governance

17. HKEX Publishes Environmental, Social and Governance Consultation Conclusions and its ESG Disclosure Review Findings

HKEX published consultation conclusions on the “Review of the Environmental, Social and Governance Reporting Guide (“ESG Guide”) and Related Listing Rules” and the findings of its latest review of listed issuers’ ESG disclosures on 18 December 2019.

Key changes to the ESG Guide and related Listing Rules include:

- Introducing mandatory disclosure requirements to include:
 - a board statement setting out the board’s consideration of ESG matters
 - application of Reporting Principles “materiality”, “quantitative” and “consistency”
 - explanation of reporting boundaries of ESG reports
- Requiring disclosure of significant climate-related issues which have impacted and may impact the issuer
- Amending the “Environmental” key performance indicators (KPIs) to require disclosure of relevant targets
- Upgrading the disclosure obligation of all “Social” KPIs to “comply or explain”
- Shortening the deadline for publication of ESG reports to within five months after the financial year-end

The changes will be effective for financial years commencing on or after **1 July 2020**. Please refer to the [consultation conclusions](#) and [press release](#) for further details. Members may also refer to the [Institute’s submission](#) and the [consultation paper](#).

Restructuring and Insolvency

18. Official Receiver’s Office Announces Pilot Scheme

The Subcommittee on Companies and Insolvency Matters of the Civil Court Users’ Committee proposed that the Official Receiver (“OR”) make greater use of the power under Rule 198 of the Companies (Winding-Up) Rules to give sanction to specific actions of liquidators, under certain circumstances. The ultimate objective is to streamline procedures and save court time.

Following discussions with the Institute’s Restructuring and Insolvency Faculty Executive Committee, the OR has announced a 12-month pilot scheme in relation to the appointment of solicitors by liquidators, where there is no committee of inspection. Starting from 2 January 2020, the OR will accept applications from liquidators for the appointment of solicitors under certain circumstances. Please refer to the [Official Receiver Office Circular No. 1/2019](#) for details.

Taxation

19. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- [Relief Measure: Conditional waiver of surcharges for instalment settlement of demand notes for the Year of Assessment 2018/19](#); and the relevant [Frequently Asked Questions](#)
- [Stock Borrowing Relief – Filing of Return of Stock Borrowing Transactions](#)
- [Hong Kong-Cambodia and Hong Kong-Estonia tax treaties in force](#)
- [Annual Open Data Plan for 2020-2022](#)
- [Country-by-Country Reporting – Deadline for Local Filing](#)
IRD announced that for the first relevant

accounting period, ending between 31 December 2018 and 31 March 2019, the Department would accept the local filing entity or its service provider as having complied with the filing deadline under section 58B(3) of the Inland Revenue Ordinance (Cap. 112), provided that the country-by-country (“CbC”) return is received via the CbC Reporting Portal on or before 31 March 2020.

- **E-Stamping of Share Transfer Instruments - E-Stamping Circular No. 1/2019; and Stamping Procedures and Explanatory Notes**
- **Budget 2020-21 consultation**
- **Reply to Legislative Council questions**
 - **Relief measures for middle class**
 - **Home-buying needs of Hong Kong people**
- **Fifth Protocol to Avoidance of Double Taxation Arrangement between the Mainland and Hong Kong in force**
- **Gazettal of Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Bill 2019**
- **Stamp Duty statistics (November 2019)**

Legislation & Other Initiatives

20. 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.

21. Anti-Money Laundering/ Counter-Terrorist Financing 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"](#). Member practices may also find the FATF's ["Guidance for a Risk-Based Approach for the Accounting Profession"](#) to be a useful reference when developing their own risk-based approach to applying the AML/CFT requirements.

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.

The Financial Action Task Force (“FATF”) has recently published guidance, [“Best Practices on Beneficial Ownership for Legal Persons”](#). The FATF notes that the results of mutual evaluations indicate that jurisdictions find it challenging to achieve a satisfactory level of transparency regarding the beneficial ownership of legal persons. This paper aims to provide suggested solutions to the disclosure of beneficial ownership, supported by cases and examples of best practices from delegations of member jurisdictions of the FATF.

The [Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report](#) (see, in particular Chapter 6, covering designated non-financial businesses and professions) indicates ML/TF risks and vulnerabilities in the Hong Kong market.

Useful Resources

22. Other Publications

- (i) The HKEX has published:
 - [Report](#) on initial public offering applications, delisting and suspensions as at 31 December 2019
 - [Market Statistics](#) for the period 1 January to 12 December 2019
- (ii) The SFC has published:

- **Takeovers Bulletin Issue no. 51 (Dec 2019)**
 - **Survey findings on Integrating Environmental, Social and Governance Factors and Climate Risks in Asset Management** and the corresponding **press release**
 - **Consultation conclusions** on proposals to impose margin requirements for non-centrally cleared over-the-counter derivatives
- (iii) Other publications
- **The Impact of Big Data on Finance: Now and in the Future** by Institute of Management Accountants
 - **The Growing Importance of Data Democratization** by CFO.com
 - **How technology is transforming financial services** by Financial Management
 - **Blockchain Technology and Its Potential Impact on the Audit and Assurance Profession** by CPA Canada, AICPA
 - **5 blockchain trends to watch in 2020** by Accounting Today
 - **New Tool for SMPs Aims to Improve Digital Competency** by EFAA
 - **Can an employee decline an accepted job offer before commencement?** by ONC Lawyers
 - **How to Attract a Talent Pool Diverse in Experience** by Journal of Accountancy