



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. Invitations to Comment

The Institute is seeking comments on:

- **IASB Exposure Draft** ED/2019/02 Annual Improvements to IFRS Standards 2018-2020 by **22 July 2019**.
- **IASB Exposure Draft** ED/2019/03 Reference to the Conceptual Framework IASB (Proposed amendments to IFRS 3) by **23 August 2019**.
- The IAASB's **Discussion Paper** on Audits of Less Complex Entities by **12 August 2019**.

2. Update on HKFRS/IFRS 17 Insurance Contracts

The Standard Setting Department of the Institute has issued Issue 5 of its update **newsletter** on HKFRS 17 *Insurance Contracts*. Previous newsletters can be accessed [here](#).

International Updates

3. International Updates

Audit and assurance

- IAASB Webcast:
 - **Quality Management Webcast Series**
 - **Introduction to Extended External Reporting Assurance – Consultation Paper**
- IAASB **Article**: Technology and Future Ready Auditor

Ethics

- IESBA **Staff Q&A**: Long Association of Personnel with an Audit Client
- IESBA **Webinar** on eCode

Financial Reporting

- May 2019 IASB **update** and **podcast**
- May 2019 IASB IFRS 17 Transition Resource Group **podcast**

Technical Learning and Support

4. New Programme

Click on the title below to register:

- **Seminar: Open-ended Fund Companies – A New Corporate Fund Regime in Hong Kong** (19 July)

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. **Linked**

Follow our **LinkedIn** for key developments in financial reporting, auditing and ethics.

Advocacy and Practice Development/Member Support

Professional Accountants in Business

7. Future-Ready Accountants in Business

What does being future-ready mean?

The Professional Accountants in Business ("PAIB") Committee of the International Federation of Accountants ("IFAC") has recently **released** a report, which provides insight into what it will take to prepare future-ready professional accountants. The **report** also captures conversations and takeaways from the IFAC PAIBC meeting held in March 2019.

Key topics covered include:

- Finance function transformation, with a case study from Prudential Financial, Inc.
- Building data science and analytics capabilities
- Supporting accountants in professional ethics
- Effective risk management and internal control
- Examining the role of the audit committee

Some of the more detailed content has been put into the following four articles, which are referenced in the report:

- **Building Data Science and Analytics Capabilities in Finance and Accounting**
- **Paying Professional Ethics More than Lip Service**
- **Accountants Enabling Effective Enterprise Risk Management**
- **Examining the Role of Audit Committees: Four Perspectives**

8. HKMA Introduces Key Measures on Sustainable Banking and Green Finance

The Hong Kong Monetary Authority ("HKMA"), in support of the mission to reduce climate

change risks and to achieve sustainable finance, has **published** three sets of measures to support and promote Hong Kong's green finance development.

- (a) **Green and Sustainable Banking:** There will be three phases in developing and implementing a common framework to assess the "Greenness Baseline" of individual banks.
- (b) **Responsible Investment:** As manager of the Exchange Fund, HKMA would give priority to Green and Environmental, Social and Governance investments if the long term return is comparable to other investments on a risk-adjusted basis.
- (c) **Centre for Green Finance:** Establish under the HKMA Infrastructure Financing Facilitation Office, it will serve as a platform for technical support and experience sharing for the green development of the Hong Kong banking and finance industry.

Corporate Governance

9. HKEX seeks views on strengthening ESG rules and publishes guidance materials on ESG and gender diversity

On 17 May 2019, HKEX issued a **Consultation Paper** to support and improve issuers' governance and disclosure of Environmental, Social and Governance ("ESG") activities and metrics.

This consultation reflects the Exchange's commitment to enhance ESG reporting and disclosure by listed companies, and builds upon its ongoing ESG-related efforts since the launch of the ESG Reporting Guide in 2013.

Key proposals:

- Introducing mandatory disclosure requirements in the ESG Reporting Guide to include:
 - a board statement setting out the board's consideration of ESG issues; and
 - applications of relevant reporting principles and boundaries in the ESG report;

- 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 “Social” KPIs to “comply or explain”; and
- Shortening the deadline for publication of ESG reports to align with the publication timeframe of the annual report (i.e., within four months (Main Board issuers) or three months (GEM issuers) after the year-end date).

The deadline for responding to the ESG Consultation is **19 July 2019**.

HKEX has also launched an e-training course, “**ESG Governance and Reporting**”, which explains the board’s leadership role in ESG matters and covers the following six topics:

- What is ESG, and why is it important?
- Board’s role in ESG governance
- Why report on ESG?
- Essential elements in an ESG report
- Details on ESG reporting
- ESG disclosure by IPO applicants

FAQs No. 24K and 24L in **Series 17** and FAQ No. 2A in **Series 18** have been added to clarify how different aspects of ESG relate to the Corporate Governance Code.

In respect of disclosure in listing documents by new applicants, HKEX has revised Guidance Letter **HKEX-GL86-16** to require additional disclosure on policy relating to board diversity (including gender) and how gender diversity of the board can be achieved in the case of a single gender board. The revised Guidance Letter also sets out our expected disclosure on ESG matters, including material information on applicants’ environmental policies, and details of the process used to identify, evaluate and manage significant ESG risks.

Please refer to [the press release](#) for details.

Corporate Finance

10. HKEX publishes Conclusions on Proposed Rule Changes Relating to Disclaimer or Adverse Audit Opinion on Issuer’s Financial Statements

HKEX has published [consultation conclusions on the proposed suspension requirements for listed issuers with disclaimer or adverse audit opinion on their financial statements](#) on 24 May 2019.

After taking into consideration comments from respondents, HKEX decided to implement the proposal with the following modifications. Please refer to the Institute’s [submission](#) on 13 December 2018 for details.

Modified suspension requirement

The HKEX considered that suspending companies with going concern issues could accelerate their demise and create financial hardship for these issuers. Hence, the HKEX has revised the proposal and the suspension requirement will not apply where (i) the disclaimer or adverse opinion relates solely to going concern; or (ii) the underlying issue giving rise to the audit modification has been resolved before the issuer publishes the preliminary results announcement.

Modified remedial period

Under the current rules, issuers may be delisted after continuous suspension for 18 months (12 months for a GEM issuer). HKEX has modified the proposal so that if the resolution of issues giving rise to the disclaimer/adverse opinion is outside the issuer’s control, a longer remedial period may be allowed on a case-by-case basis.

Transitional arrangement

In addition, HKEX will provide a transitional period such that the remedial period will be extended to 24 months for both Main Board and GEM issuers that are suspended due solely to a disclaimer or adverse opinion being issued in the first two financial years after the implementation of the new rule (i.e. for the financial years commencing on or after 1

September 2019 and up to and including 31 August 2021).

The new rules will apply to issuers' preliminary annual results announcements for financial years commencing on or after 1 September 2019. The [amendments to the Main Board Listing Rules](#) and [amendments to the GEM Listing Rules](#) can be downloaded from the HKEX website. An updated [Guidance Letter](#) on Long Suspension and Delisting, which provides further guidance relating to the suspension requirement and circumstances in which the HKEX may consider allowing a longer remedial period, is also provided.

Please refer to the [press release](#) for details.

Taxation

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

Members may wish to be aware of the following matters:

- [Application for Certificate of Resident Status relating to the Circular of the State Taxation Administration on Matters Concerning "Beneficial Owners" in Tax Treaties \(STA Circular 2018 No. 9\)](#)
- **DIPN 56 & DIPN 57**
The IRD has issued [Departmental Interpretation and Practice Notes \("DIPN"\) No. 56](#) and [DIPN No. 57](#) to explain the conditions for deduction of the premiums under the Voluntary Health Insurance Scheme and for annuity premiums and voluntary contributions to Mandatory Provident Fund ("MPF") schemes, respectively.
- **DIPN 23 (Revised)**
[A revised version of DIPN 23](#) ("Recognized Retirement Schemes") has also been issued, to reflect legislative changes relating to MPF schemes and set out IRD's revised assessing practice relating to defined benefit schemes.
- [List of Qualifying Debt Instruments \(as at 31 March 2019\)](#)
- [Tax Obligations of Taxpayers and Employers](#)
- [Business Registration Notice](#)

- [Stamp Duty statistics \(April 2019\)](#)
- [Taxpayer convicted of making false claims for allowances](#)

12. Annual Meeting with the IRD

The annual meeting between representatives of the Institute's Taxation Faculty Executive Committee and the IRD took place on 10 May 2019. At the meeting, the IRD confirmed the due dates for lodging profits tax returns for the year of assessment 2018-19. These are highlighted for members' attention:

Accounting date	Extended due date	Further extended due date (if opting for e-filing)
"N" Code	2 May 2019 (no extension)	16 May 2019
"D" Code	15 August 2019	29 August 2019
"M" Code	15 November 2019	29 November 2019
"M" Code - current year loss cases	31 January 2020	31 January 2020 (same as paper returns)

Legislation & Other Initiatives

13. Anti-Money Laundering Notices and News

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.

The Financial Action Task Force has recently published its [mutual evaluation report on the anti-money laundering and counter-terrorist financing measures in the People's Republic of China](#). Hong Kong also underwent a mutual evaluation during 2018 and the report is due to be published quite soon.

14. 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, including accountants), which indicates ML/TF risks and vulnerabilities in the Hong Kong market.

15. Licensing under the Property Management Services Ordinance

Members may recall that the Institute issued a [submission](#) expressing concern over proposals in the consultation on the "Proposed Licensing Regime for Property Management Companies and Property Management Practitioners", issued by the Property Management Services Authority ("PMSA") in November 2018 (see "TechWatch" issue 196, February 2019).

The PMSA has recently issued a major proposals ["Fact sheet on PMSA licensing regime"](#) on its [website](#) after consideration of the feedback received from stakeholders, including the Institute's submission. In the proposals, it is clarified that an individual who assumes a managerial or supervisory role in relation to part of, but not all, the property management services provided by a Property Management Company ("PMC") is not required to hold a Property Management Practitioner ("PMP") license. Therefore, an accountant working in supervisory role in a PMC and providing only Category 4, Finance and asset

management relating to a property, i.e., services for the budgeting, or management of finance, accounts or asset relating to a property, should not be required to be licensed. Other clarifications are also provided in the fact sheet.

Useful Resources

16. Other Publications

- (i) The HKEX has published [Report](#) on initial public offering applications, delisting and suspensions as at 31 May 2019
- (ii) Other publications:
 - [Pursuing Cybersecurity Maturity at Financial Institutions](#) by Deloitte
 - [Technology Enabled Audit – How are advanced technologies transforming the audit?](#) by KPMG
 - [Data due diligence: Leading the new trend of IPO due diligence](#) by PwC
 - [5 Steps to Get Started with Audit Data Analytics](#) by AICPA
 - [Cybercrime Threatens Trust in Business – How Accountants Can Help](#) by IFAC
 - [Taking Control of Cyber Risk](#) by Board Agenda
 - [Risk and Performance: Embedding Risk Management](#) by ACCA
 - [The future of finance in action](#) by Financial Management
 - [How to Get Started with Value Pricing](#) by Journal of Accountancy
 - [SMEs as the Backbone of Southeast Asia's Growing Economy](#) by ASEAN Federation of Accountants