



TechWatch

News at a glance

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

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Financial Reporting, Auditing and Ethics

Members' Handbook

1. Handbook Update No. 109

Update No. 109 relates to the issuance of HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine*.

The Interpretation clarifies the requirements for accounting for stripping costs in the production phase of a surface mine and when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

The Interpretation is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Financial Reporting

2. FRSC Minutes

FRSC minutes on 4 October 2011 cover:

- Report on the National Standard Setters ("NSS"), the Asian-Oceanian Standard-Setter Group ("AOSSG") and the World Standard Setters ("WSS") meetings
- Size criteria on simplified financial reporting under the Companies Bill
- Nomination of Vice-Chair of AOSSG
- Reconsideration of the relationship between NSS and the IASB
- Accounting application issue on convertible bonds
- Action plan to strengthen the business community's understanding of HKFRSs
- A request from Quality Assurance Department on the accounting for receipt of tax indemnities from parent companies

- Update on joint seminar with Hong Kong Institute of Surveyors for the visit of the Chairman of the International Valuation Standards Committee
- Speaker for IFRS Regional Policy Forum 2012

3. Invitations to Comment on Consultation Documents

- (i) IASB ED of *Revenue from Contracts with Customers*

The Institute has issued an **Invitation to Comment** on IASB ED of *Revenue from Contracts with Customers*, with comments requested by **20 February 2012**.

The core principle of this revised proposed standard, which is the same as that of the 2010 exposure draft, is that an entity would recognize revenue from contracts with customers when it transfers promised goods or services to the customer. The amount of revenue recognized would be the amount of consideration promised by the customer in exchange for the transferred goods or services. However, in response to feedback received on the 2010 exposure draft and extensive outreach activities, the IASB and the US Financial Accounting Standards Board further refined their original proposals. In particular they:

- added guidance on how to determine when a good or service is transferred over time;
- simplified the proposals on warranties;
- simplified how an entity would determine a transaction price (including collectibility, time value of money, and variable consideration);
- modified the scope of the onerous test to apply to long-term services only;
- added a practical expedient that permits an entity to recognize as an expense costs of obtaining a contract (if one year or less); and

- provided exemption from some disclosures for non-public entities that apply US GAAP.

If adopted, the proposed standard would replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related Interpretations.

A summary prepared by the IASB on the ED is set out in the Appendix to this Invitation to Comment.

(ii) SME Implementation Group Draft Question and Answers

The Institute has issued an **Invitation to Comment** on the draft non-mandatory guidance in the form of Question and Answers ("Q&As") published by the SME Implementation Group ("SMEIG"), with comments requested by **6 January 2012**.

The SMEIG is responsible for assisting the IASB on matters related to the implementation of the IFRS for SMEs.

The new draft Q&As cover the following topics:

- Draft Q&A (Section 30, Issue 1) – Recycling of cumulative exchange differences on disposal of a subsidiary
- Draft Q&A (Section 11, Issue 1) – Fallback to IFRS 9 *Financial Instruments*

(iii) Consultation paper on eligibility for the use of Small- and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard ("SME FRF-FRS")

The Institute has issued a **Consultation paper** on eligibility for the use of SME FRF-FRS, with comments requested by **16 January 2012**.

The consultation paper sets out the Institute's preliminary recommendations on size criteria to establish the eligibility of

companies to prepare simplified financial and directors' reports using the SME FRF-FRS.

The Institute's final recommendations will be submitted for consideration by the Companies Bill team and the Bills Committee of the Legislative Council.

The consultation paper purposes that the eligibility criteria for small private companies and groups of small private companies to prepare simplified financial and directors' reports should be relaxed as follows:

(A) A private company (except for a banking or deposit-taking company, an insurance company or a stock-broking company) will automatically qualify for simplified reporting if it is a small private company that satisfies any two of the following conditions:

- The amount of total revenue for the financial year, as reflected in the company's annual financial statements for the financial year, does not exceed **HK\$100 million** (*originally HK\$50 million in the Companies Bill gazetted on 14 January 2011*).
- Total assets at the date of the statement of financial position of the financial year, as reflected in the company's annual financial statements for the financial year, does not exceed **HK\$100 million** (*originally HK\$50 million in the Companies Bill*).
- Average number of employees during the financial year **does not exceed 100** (*originally no more than 50 employees in the Companies Bill*).

(B) A private company that is the holding company of a group of small private companies that satisfies any two of the following conditions qualifies for simplified reporting:

- The aggregate amount of the group's total revenue for the financial year does not exceed **HK\$100 million net** (*originally HK\$50 million in the Companies Bill*).
- The aggregate amount of the group's total assets at the date of the statement of financial position for the financial year does not exceed **HK\$100 million net** (*originally HK\$50 million in the Companies Bill*).
- The aggregate of the average number of employees of each company in the group during the financial year **does not exceed 100** (*originally no more than 50 employees in the Companies Bill*).

(C) A small guarantee company or a guarantee company that is the holding company of a group of small guarantee companies (total annual revenue must be not more than HK\$25 million) also qualifies for simplified reporting.

Ethics

4. Invitation to Comment on IESBA ED on Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code

The Institute has issued an **Invitation to Comment** on IESBA ED on *Proposed Changes to the Code of Ethics for Professional Accountants ("IESBA Code") Related to Provisions Addressing a Breach of a Requirement of the Code*, with comments requested by **23 December 2011**.

The Explanatory Memorandum to the ED provides background information and explanation of, and the proposed changes to, various paragraphs in the IESBA Code that address a breach of a requirement of the IESBA Code.

In 2010, the IESBA assessed the provisions in the IESBA Code that address a breach of an independence requirement, and concluded that a project should be undertaken to reconsider those provisions. As a result of this project, the IESBA concluded that it is in the public interest to have an appropriate mechanism that can be consistently applied across all jurisdictions in order to provide companies, auditors, regulators, and similar authorities with a framework to evaluate the impact of an independence violation and determine whether the auditor's resignation is the only appropriate outcome.

In addition, the IESBA believes that any breach of a provision of the IESBA Code should be treated as a matter of utmost importance. Therefore, it has proposed changes to the IESBA Code that will provide guidance to a professional accountant on the action to be taken in such situations. This includes a robust framework for addressing a breach of an independence requirement that will result in greater transparency. The proposed framework will guide accountants, and those charged with governance, in determining whether resignation is an appropriate outcome or whether a different outcome can be supported. In addition, disclosure will enhance transparency, and the proposed documentation requirement adds a degree of rigor to the process that will be very useful.

The proposed changes include a requirement that a professional accountant take whatever actions that might be available as soon as possible to satisfactorily address the consequences of a breach of a provision of the IESBA Code. For a breach of an independence requirement in the IESBA Code, a detailed framework is provided setting out the action to be taken. Specifically, the proposed changes would require a firm to:

- terminate, suspend, or eliminate the interest or relationship that caused the breach;
- evaluate the significance of the breach and determine whether action can be taken to satisfactorily address the consequences of the breach;

- communicate all breaches with those charged with governance and obtain their agreement with the proposed course of action; and
- document the actions taken and all the matters discussed with those charged with governance and, if applicable, any relevant regulators.

The IESBA intends to finalize the revisions to the IESBA Code in the first half of 2012 and proposes that the changes be effective for breaches identified on and after 1 January 2013.

International Meetings

5. International Accounting Standards Board

The IASB met on 1, 7 and 15-16 November 2011 and discussed the following topics:

- Annual improvements
- Financial instruments: classification and measurement
- IFRS 10 transitional requirements
- Insurance contracts
- Insurance contracts: education session on residual margins
- Leases
- Macro hedge accounting
- Mandatory effective date of IFRS 9
- Offsetting-Additional feedback: effective dates
- Put options written on non-controlling interests
- Work plan

Click to view the IASB Update on the meetings on [1 November](#), [7 November](#) and [15-16 November](#). The IASB next meets in December 2011.

6. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 3-4 November 2011 and discussed the following topics:

- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – levies charged for participation in a market on a specified date
- IAS 32 *Financial Instruments: Presentation* – NCI put options
- IFRS Interpretations Committee agenda decisions
- IFRS Interpretations Committee tentative agenda decisions
- Issues considered for *Annual Improvements*
- IFRS Interpretations Committee work in progress

Click to view the IFRIC Update on the meeting on [3-4 November](#). The IFRS Interpretations Committee next meets in January 2012.

7. International Auditing and Assurance Standards Board

The IAASB next meets in December 2011. Click [here](#) for the next meeting's details and previous meeting summary.

8. International Ethics Standards Board for Accountants

The IESBA next meets in February 2012. Click [here](#) for the next meeting's details and previous meeting summary.

Useful Resources

9. Publications

The following are publications on various topics:

- (i) [Challenges in applying IFRS 11 Joint Arrangements](#) by Ernst & Young
- (ii) IESBA [strategy and work plan 2011-12](#)

- (iii) **Speech** on convergence by FASB chairman
- (iv) Illustrative financial statements and disclosure checklists:
 - **Illustrative financial statements** by Deloitte with no early application
 - **Illustrative financial statements** by Ernst & Young
 - **Illustrative financial statements** by PwC
 - **Presentation and Disclosure Checklist** by Deloitte
 - **International GAAP Disclosure Checklist** by Ernst & Young
- (v) **Update** on Overview of IFRSs by Ernst & Young
- (vi) **A Plus article**: Revised standard on assisting capital markets transactions
- (vii) G20 summit:
 - Paragraph 34 of **communiqué** by G20
 - **Response** by IASB
- (viii) **Press release** on China-Japan-Korea accounting standards setters' meeting by Accounting Standards Board of Japan
- (ix) IFAC **Guide to the audit of SMEs**
- (x) HK(IFRIC) – Int 20:
 - **Staff summary** by the Institute
 - **Update** by KPMG

Comment Due Dates

15 December 2011: IASB ED of *Investment Entities*

15 December 2011: IASB ED of *Government Loans (Proposed amendments to IFRS 1)*

19 December 2011: ED on Revised PN 830 *Reports By the Auditor Under the Banking Ordinance*

23 December 2011: IESBA ED of *Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code*

6 January 2012: SME Implementation Group Draft Question and Answers

16 January 2012: Consultation paper on eligibility for the use of Small- and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard

20 February 2012: IASB ED of *Revenue from Contracts with Customers*

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

10. Results of the 2011 Best Corporate Governance Disclosure Awards

The Best Corporate Governance Disclosure Awards 2011 ("Awards") was successfully concluded with the presentation ceremony held at a luncheon on 24 November. The guest of honour, secretary for financial services and the treasury, Professor K. C. Chan, addressed the audience and presented the awards to the winners.

The results of the 2011 Awards were announced at a [media briefing](#) held on 23 November. This year, a new award for sustainability and social responsibility reporting was introduced. The top awards were not given out in all categories again this year. The judges considered that, while there were some well-run organizations in those categories, greater efforts could still be made to achieve excellence in corporate governance.

The winners of the 2011 Awards are:

Hang Seng Index Category

Diamond – CLP Holdings Limited ("CLP")

Platinum – Hong Kong Exchanges and Clearing Limited ("HKEx")

Gold – MTR Corporation Limited

Significant Improvement – China Coal Energy Company Limited

Non-Hang Seng Index (Large Market Capitalization) Category

Diamond – Prudential plc

Platinum – Hysan Development Company Limited

Gold – Transport International Holdings Limited

Special Mention – The Hongkong and Shanghai Hotels, Limited

Non-Hang Seng Index (Mid-to-small Market Capitalization) Category

Gold – SOCAM Development Limited

H-share Category

Platinum – Industrial and Commercial Bank of China Limited

Gold – Jiangsu Expressway Company Limited

Special Mention – China Shenhua Energy Company Limited

Public Sector/Not-for-profit Category

Platinum – Airport Authority Hong Kong

Gold – Securities and Futures Commission

Sustainability and Social Responsibility Reporting Award

Joint winners – CLP and HKEx

The [judges' report](#) contains the judges' commentaries on the winning annual reports, the general observations of the judges and reviewers, as well as other background information.

11. IFAC's International Good Practice Guidance on Forward-Looking Business Performance

The IFAC PAIB Committee has recently issued an International Good Practice Guidance, [Predictive Business Analytics: Improving Business Performance with Forward-Looking Measures](#), to help professional accountants in business use predictive business analytics to identify new opportunities for growth and improvement in their organizations, as well as to highlight areas for corrective actions and strategy adaptations.

Corporate Finance

12. SFC to Amend the Code of Conduct in Preparation for a Financial Dispute Resolution Centre

The Securities and Futures Commission ("SFC") has launched a consultation to solicit comments on proposed amendments to the Code of Conduct for Persons Licensed by or Registered with the SFC to facilitate the establishment of the Financial Dispute Resolution Centre ("FDRC") and enhancement of the regulatory framework.

Proposals include provisions to require licensed/registered persons regulated by the SFC or the Hong Kong Monetary Authority to comply with the FDR scheme and be bound by its process, and to oblige licensed/registered persons to enhance the complaint handling procedures and act in good faith under the FDR scheme. The public is consulted also on proposed amendments to strengthen enforcement against market misconduct and to improve supervisory oversight of financial markets. Read the [consultation paper](#) for further details.

Interested parties may submit their written comments to the SFC on or before **9 January 2012**.

13. HKEx Rolls Out AMS/3.8 System Upgrade

Hong Kong Exchanges and Clearing ("HKEx") has rolled out an upgrade of its securities market trading system ("AMS") from AMS/3.5 version to AMS/3.8. The upgraded system increases the efficiency of the securities market by increasing the trading system's processing capacity about 10 fold, to 30,000 orders per second. Market transparency is also improved as AMS/3.8 displays the 10 best price levels compared with the five best price levels in AMS/3.5. In addition, the market data broadcast rate has been doubled from 1,000 to 2,000 stock page updates per second.

Insolvency and Corporate Restructuring

14. ORO Invites Tenders for Taking Up of Appointments as Provisional Liquidator

The Official Receiver's Office ("ORO") is inviting practitioners to submit tenders for taking up of appointments as provisional liquidator under section 194(1A) of the Companies Ordinance (Tender Ref: OR/T/2011). The deadline for submission is 12:00 noon on 19 January 2012. The tender form and other relevant documents are obtainable from the ORO or the [ORO's website](#).

Taxation

15. Double Taxation Agreements

On 8 November 2011, Hong Kong signed a [double taxation agreement with Malta](#), which is the 22nd agreement concluded by Hong Kong. Click for [more details](#).

The double taxation agreements between:

- [Hong Kong and the New Zealand](#) came into effect on 9 November 2011. Click for [more details](#).
- [Hong Kong and France](#) came into effect on 1 December 2011. Click for [more details](#).

16. Legco Question on Avoidance of Double Taxation

A [question](#) was raised in LegCo on 23 November 2011 about the arrangement with the Mainland for the avoidance of double taxation. Specifically, the question concerned the 183-day threshold in relation to remuneration derived by Mainland and Hong Kong residents from their employment in these locations, and whether non-working days should be counted. In his reply, the secretary for financial services and the treasury indicated that any days of "physical presence" would count towards the 183 days.

17. Advance Ruling on Waiver of Loans

The IRD has published an [advance ruling](#) relating to waiver of loans, and sections 14 and 15 of the Inland Revenue Ordinance on chargeability of tax and sections 61 and 61A on anti-avoidance provisions.

18. Revised Practice Notes

The following practice notes were recently revised:

- (i) [Departmental Interpretation and Practice Notes No. \("DIPN"\) 25, "Service company "Type I" arrangements - salaries tax"](#), has been revised to:

- include board of review decisions concerning section 9A
 - draw reference from court of final appeal judgment for the purposes of section 9A(4)
 - add examples to illustrate the coverage of section 9A
- (ii) **DIPN 31, "Advance rulings"** has been revised to provide more information about the advance ruling service, which includes issues such as discretion, extent of disclosure, class rulings, incorrect information, when rulings will not apply, and processing of ruling requests.

19. Annual Report 2010-11

The **IRD annual report 2010-11** is now available, which includes information on **revenue**, **collection** and **field audit and investigation**.

Legislation & Other Initiatives

20. Companies Registry Update

- (i) Companies Registry's e-Service Portal – "e-Registry" Third Party Software Interface ("TPSI")

Following the introduction of new functions for TPSI at the e-Registry, the Companies Registry ("CR")'s website <www.cr.gov.hk> has been updated, as follows:

- updated contents of the "Development Programme → **Integrated Companies Registry Information System (ICRIS)**" section
- a new subsection "Third Party Software Interface (TPSI)" has been added under the "Electronic Services → **Electronic Services at the e-Registry**" section
- a new subsection "Third Party Software Interface" has been added under the **Frequently Asked Questions** section

- (ii) The CR has updated the contents of the "Compliance → **Our Enforcement**" section of its website.

21. Latest Anti-Money Laundering Notices

Members may wish to note that the following notices and publications in relation to combating money laundering/terrorist financing:

- **Financial action task force (FATF) public statement:** Draws attention of its members on the risks of transactions involving Iran, Democratic People's Republic of Korea, Bolivia, Cuba, Ethiopia, Kenya, Myanmar, Nigeria, São Tomé and Príncipe, Sri Lanka, Syria and Turkey.
- **Improving global AML/CFT compliance: on-going process:** Draws the attention of FATF members to jurisdictions with deficiencies that pose money laundering/terrorist financing risks in the international financial system.
- **Review of the FATF standards:** Following the **second consultation paper** of the review of the FATF 40+9 Recommendations, the **responses** from designated non-financial business and professions, which includes accountants are now available. For more background, click for the **first consultation paper** and its **results**.
- **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 anti-money laundering, see the Institute's **Legal Bulletin 1**, "Requirements on anti-money laundering, anti-terrorist financing and related matters".

Useful Resources

22. Library Resources

Featured titles and **new books** of high reference value for members 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.

23. Other Publications

The following articles/publications on topical issues may be of interest to members:

(i) HKEx published:

- an updated guidance letter in relation to conditions for waivers from strict compliance with main board rule 4.04(1) (**GL25-11**)
- an updated listing decision about whether a listing applicant would be considered to be unsuitable for listing due to legal questions associated with the various contractual arrangements under contract-based structures (**HKEx-LD43-3**)
- two listing decisions in relation to:
 - whether HKEx would disregard the consideration ratio for a listed issuer's disposal of interest in a company listed on an overseas stock exchange under the offer, and classify it as a major transaction, instead of a very substantial disposal (**LD 20-2011**)
 - whether HKEx would accept a listed issuer's proposed alternative size tests to classify its disposal of interest in a jointly-controlled entity, owned by it and certain third parties, as a discloseable transaction instead of a very substantial disposal (**LD 21-2011**)

- **status report** on new product and market development initiatives (as of 24 October)
- **report** on initial public offering ("IPO") applications, delisting and suspensions (as at 30 November)
- **full report** and **summary** of the findings of HKEx Derivatives Market Transaction Survey 2010/11
- October 2011 issue of **Exchange**, the Exchange's quarterly newsletter

(ii) SFC published:

- November 2011 issue of **InvestEd Intelligence** which covers the rules of margin financing and the newest investor protection measures to mitigate risk in synthetic exchange-traded funds. It also reminds investors to access all relevant information to make informed investment decisions
- a **circular** requiring licensed corporations to establish and maintain policies and procedures to ensure proper management of risks, if they provide services to clients through overseas counterparties, including explaining to their clients the risks associated with such trading activities and informing them of risks of conducting transactions in other jurisdictions
- a **circular** to management companies of SFC-authorized unit trusts and mutual funds and issuers of SFC-authorized investment-linked assurance schemes, providing guidance on the production and refinement of product key fact statements ("KFS") and informing the industry of the action the SFC has taken on the basis of its surveillance findings on the KFS

- (iii) Articles on corporate governance by Deloitte:
 - **Mid-market perspectives – Optimizing private company competitiveness through effective board composition**
 - **International governance: Lessons for the United States**
 - **Global economic outlook Q4 2011 – Stressful times**
 - **Women in the boardroom: A global perspective**
- (iv) **International Survey of Corporate Responsibility Reporting 2011** by KPMG
- (v) **Corporate Governance in Asia** by OECD