



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

New!

1. New Technical Training and Support Programme

The New Technical Training and Support Programme covering the period from July to September 2011 has continuously been developed to focus on three major areas of expertise – accounting, auditing and ethics.

- New and Revised Accounting Standards/Guidance 2010/2011 (re-run)
- HKSA 600 (Clarified) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) (re-run)
- Training for Audit Staff Workshop
- Audit Practice Manual Application Workshop
- The Revised Code of Ethics
- HKFRS for Private Entities Workshop
- HKICPA/ICAEW Auditing Forum
- Financial Reporting Forum on New standards on consolidation, joint ventures and disclosure, and fair value measurement - HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements* and HKFRS 12 *Disclosure of Interests in Other Entities*
- Financial Reporting Forum on New standards on consolidation, joint ventures and disclosure, and fair value measurement - HKFRS 9 *Financial Instruments* and HKFRS 13 *Fair Value Measurement*

To secure seats, please register early by completing the [registration form](#).

2. Financial Reporting Forum 2011 – Meet the New IASB Chairman

Hans Hoogervorst, chairman of the IASB, and Zhang Wei-Guo, member of the IASB are visiting Hong Kong to speak on a Financial Reporting Forum held by the Institute on 29 July 2011 to talk about IFRS developments and the IASB's work plan.

The Forum will also cover the following topics on IASB recent developments in group accounting and fair value measurement:

- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*

To secure your seats, please register early by completing the [registration form](#) and returning it to the Institute.

Members' Handbook

3. Handbook Update No. 106

Update No. 106 relates to the issuance of:

- HKAS 27 (2011) *Separate Financial Statements*
- HKAS 28 (2011) *Investments in Associates and Joint Ventures*
- HKFRS 10 *Consolidated Financial Statements*
- HKFRS 11 *Joint Arrangements*
- HKFRS 12 *Disclosure of Interests in Other Entities*
- HKFRS 13 *Fair Value Measurement*

The issuance of HKFRS 10, HKFRS 11 and HKFRS 12 completes improvements to the

accounting requirements for off balance sheet activities and joint arrangements and concludes an important element of the IASB's comprehensive response to the financial crisis.

- HKFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, an investor controls an investee if and only if the investor has all of the following:

- (i) Power over the investee;
 - (ii) Exposure, or rights, to variable returns from its involvement with the investee; and
 - (iii) The ability to use its power over the investee to affect the amount of the investor's returns.
- HKFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.
 - HKFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

HKFRS 13 improves consistency and reduces complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

The above-mentioned standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Staff summaries on the above can be accessed at:

- [**HKFRS 10 Consolidated Financial Statements, HKFRS 12 Disclosure of Interests in Other Entities, and HKAS 27 \(2011\) Separate Financial Statements**](#)
- [**HKFRS 11 Joint Arrangements and HKAS 28 \(2011\) Investments in Associates and Joint Ventures**](#)
- [**HKFRS 13 Fair Value Measurement**](#)

Financial Reporting

4. FRSC Minutes

This [**FRSC minutes**](#) on 12 April 2011 covers:

- Companies Ordinance Rewrite – Update of SMR-FRF&FRS
- Companies Ordinance Rewrite – Companies Bill
- Report on the National Standard Setters Meeting
- Participation in standard-setters activities in:
 - (i) IAS 41 *Agriculture*
 - (ii) AASB Online Questionnaire
 - (iii) Conceptual Framework Development – The Unit of Account

- Outstanding issues list of the IFRS Interpretations Committee
- IVSC ED of Technical Information Paper 2 *Depreciated Replacement Cost*

5. Invitation to Comment on IASB ED of Proposed Improvements to IFRSs (Fourth Set)

The Institute has issued an **Invitation to Comment** on IASB ED of *Proposed Improvements to IFRSs* (Fourth set), with comments requested by 30 September 2011.

The IASB ED reflects issues discussed by the IASB in the project cycle that began in 2009. These amendments meet the enhanced criteria for the annual improvements process that were approved by the IFRS Foundation Trustees in February 2011 as part of a revision to the Due Process Handbook for the IASB. The revised criteria were developed to help determine whether a matter relating to the clarification or correction of IFRSs should be addressed using the annual improvements process.

The proposed effective date for the amendments is for annual periods beginning on or after 1 January 2013, although entities are permitted to adopt them earlier.

6. Institute Comments on IVSC ED of Technical Information Paper 2

The Institute made a **submission** to International Valuation Professional Board on its ED of Technical Information Paper 2 *Depreciated Replacement Cost* and the Institute agrees with the ED that the cost approach can be applied in a wide variety of circumstances in addition to financial reporting. However, it is noted that the ED is being drafted mainly based on the valuation for tangible asset and it is not certain whether the principle in this Technical Information Paper ("TIP") is also applied to intangible asset. Paragraph 5 of the ED has slightly mentioned that the Depreciated Replacement Cost ("DRC") approach can also be applied to intangible asset; however, there is no further elaboration or guidance on the factors

that should be considered in performing the DRC for intangible asset. The Institute considers that it would be helpful if the IVSC can address this clearly in the final TIP.

It is noted that the TIP describes the difference between the equity value and the value of the company's identifiable assets and liabilities as "goodwill" in the illustrative examples of economic obsolescence, which the Institute considers may not be consistent with IFRS. According to IFRS 3 *Business Combinations*, goodwill is recognized in a business combination as the excess of the aggregate of the fair value of consideration transferred (including the acquisition-date fair value of previously held interest) and the amount of any non-controlling interest recognized over the assets and liabilities recognized. Accordingly, the amount of goodwill recognized under IFRS may vary depending on various factors such as the acquirer-specific synergy included in the consideration transferred and the measurement choice of the non-controlling interest. To prevent confusion, it is recommended that the word "goodwill" should be replaced with another term such as "residual value" or "unidentified intangible" if the Board means to refer to assets that are not tangible assets.

The Institute understands that valuations involve the exercise of professional judgement and that high quality application guidance should not prevent a valuation professional from applying appropriate judgement. However, the Institute is aware that more practical implementation guidance would be welcomed by emerging economies in Asia as the use of cost approach is more often in those economies due to the immaturity of the market with a relatively lower level of liquidity and number of market participants. The Institute has previously made similar comments in relation to the draft TIP on discounted cash flow and had expressed a hope that the IVSC can work closely with local valuation standard setters such as The Royal Institution of Chartered Surveyors in the UK and the Hong Kong Institute of Surveyors in Hong Kong in developing local practical guidance on certain asset classes such as real estate properties so as to ensure it is consistent with

the underlying principles in the TIP when addressing specific legal and market conditions of different jurisdictions.

Audit & Assurance

7. AASC Minutes

This [AASC minutes](#) on 19 April 2011 mainly covers:

- AASC Work Plan 2011 – Status Report
- Update on referral to Ethics Committee on pre-IPO applicants
- Update on discussions with HKAB on bank confirmation request forms

8. Invitation to Comment on ED on Revised PN 600.1

The Institute has issued an [Invitation to Comment](#) on ED on Revised PN 600.1 *Reports by Auditors under the Hong Kong Companies Ordinance*, with comments requested by 31 July 2011.

The AASC has embarked on a project to align the extant Practice Notes ("PN") with the development of the auditing and assurance pronouncements recently issued. As part of the project, the proposed revised PN 600.1 has been updated to align with the relevant assurance pronouncements such as clarified HKSA's and Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ("HKSAE 3000").

The key revisions are:

- References have been revised to reflect the clarified HKSA's;
- Additional guidance in regards to the auditor's reporting on distributions and redemption or purchase of own shares (paragraphs 33 – 43 and Appendix 1);
- Elevation of guidance in Industry Guideline 3.406 *Banks and Deposit-Taking*

Companies – The Amended Section 161B and Section 161BA of the Companies Ordinance to revised PN 600.1 (paragraphs 44 – 54 and Appendix 2);

- Examples 1.1 and 1.2 of Appendix 1 have been revised to align with HKSAE 3000;
- Example 1.3 of Appendix 1 has been revised to align with the clarified HKSA's;
- Example 2.1 of Appendix 2 has been revised to align with HKSAE 3000; and
- Examples 2.2 and 2.3 of Appendix 2 have been revised to align with clarified HKSA's.

International Meetings

9. International Accounting Standards Board

The IASB met on 31 May-2 June, and 13-15 June 2011 discussed the following topics:

- Agenda consultation: proposed timetable
- Annual improvements: comment period
- Asset and liability offsetting
- Financial instruments: classification and measurement
- Financial instruments - hedge accounting
- Impairment
- Insurance contracts
- Investment entities: sweep issues
- Investment property
- Leases
- Revenue recognition

Click to view the IASB Update on the meetings on [31 May-2 June](#) and [13-15 June](#). The IASB next meets in July 2011.

10. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in July 2011. Click [here](#) for the next meeting's details.

11. International Auditing and Assurance Standards Board

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

12. International Ethics Standards Board for Accountants

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

Useful Resources

13. Publications

The following are publications on various topics:

- (i) Practical guide to new IFRSs for 2011:
 - [Report](#) by PwC
- (ii) Asian-Oceanian Standard-Setters Group ("AOSSG") Vision paper:
 - [Press release](#) by AOSSG
 - [Vision paper](#) by AOSSG
 - [Communiqué of the 5th IFRS policy forum for the Asia-Oceania region](#) by IFRS
- (iii) Illustrative financial statements:
 - [Illustrative condensed consolidated interim financial information](#) by PwC
- (iv) Update on IAS 39 replacement project:
 - [Update](#) by BDO

- (v) Guide on HKFRS for Private Entities:

- [Guide](#) by Deloitte and the Institute

- (vi) Revised Code of Ethics for Professional Accountants:

- [Alert](#) by the Institute

- [Q & A](#) by IESBA

- [Presentation](#) by IFAC on overview of the Code of Ethics

- [Presentation](#) by IFAC on independence

- [Paper](#) by IESBA on overview of independence requirements

- [Comparison](#) by IESBA between the old version and the revised Code of Ethics

Comment Due Dates

31 July 2011: ED on Revised PN 600.1 *Reports by Auditors under the Hong Kong Companies Ordinance*

1 August 2011: IAASB ED on Proposed ISAE 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

16 August 2011: IFAC's IAASB Consultation Paper on Enhancing the Value of Auditor Reporting: Exploring Options for Change

30 September 2011: IASB ED of *Proposed Improvements to IFRSs* (Fourth set)

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

14. ISACA and IFAC Jointly Developed a New Publication on XBRL

ISACA and the IFAC PAIB Committee have jointly developed a paper, [Leveraging XBRL for Value in Organizations](#), to provide guidance to leverage value from eXtensible Business Reporting Language ("XBRL") initiatives and compliance requirements. Click [here](#) for additional XBRL resources.

Corporate Finance

15. Bill Introduced on Disclosure of Price Sensitive Information

The [Securities and Futures \(Amendment\) Bill 2011](#) ("the Bill") was introduced to the Legislative Council on 29 June 2011 (see the [Legislative Council Brief](#)). The main objectives of giving statutory backing to price sensitive information ("PSI") disclosure are (i) to promote a continuous disclosure culture among listed corporations so as to enhance market transparency and quality, and (ii) to bring Hong Kong's regulatory regime for listed companies into line with other international financial centres.

In defining PSI, the Bill proposes borrowing the concept of "relevant information" currently used in the insider dealing regime in the Securities and Futures Ordinance.

Under the Bill, listed companies are required to disclose PSI as soon as reasonably practicable after they have become aware of the information. If a listed corporation is in breach, an officer will also be in breach if the company's breach is a result of his intentional, reckless or negligent conduct; or he has not taken all reasonable measures to ensure that proper safeguards exist to prevent the breach. The Bill will impose a range of civil

sanctions for breaches, and empowers the SFC to institute proceedings before the Market Misconduct Tribunal directly in respect of PSI cases.

In order to strike a balance between ensuring market transparency and safeguarding the legitimate interests of listed companies in preserving the confidentiality of certain information, to facilitate their operation and business development, the Bill will provide specified [safe harbours](#).

At the same time, the SFC has published revised draft Guidelines on Disclosure of Inside Information to provide guidance on the interpretation and application of relevant provisions of the Bill. See a [clean](#) and a [marked-up](#) copy of the revised draft guidelines, which may need to be revised further once the final form of the Bill is settled. The final version of the guidance will be published in the gazette and will take effect on the same day as the Bill.

See also the consultation conclusions on the legislative proposals for PSI disclosures and the Institute's submission on the consultation, as reported in [TechWatch no. 101](#) (item 12) and [TechWatch no. 94](#) (item 16), respectively.

16. Extension of Conflicts of Interest Requirements to Pre-deal Research Reports

On 30 June 2011, the SFC published [consultation conclusions](#) on proposals to expand the scope of conflicts-of-interest requirements governing research analysts, to enhance the integrity and objectivity of pre-deal research reports (see [TechWatch no. 99](#) (item 19) for the Institute's submission).

The SFC will extend the conflicts-of-interest requirements governing analyst conduct in preparing investment research reports to real estate investment trusts ("REITs") and listing applicants. One of the new requirements stipulates that sponsors of listing applicants have to take reasonable steps to ensure that all material information, including material forward-looking information, disclosed to analysts is contained in prospectuses or listing documents.

In the light of the recent interest in listing business operations that are not established in a corporate form or as a REIT, such as business trusts, the requirements will also be extended to analysts conducting research for such business operations.

Changes will be made to the *Code of Conduct for Persons Licensed by or Registered with the SFC* and the *Corporate Finance Adviser Code of Conduct* to implement the proposals. The changes will be implemented with effect from 1 September 2011, except for the requirements in relation to new listings, which will apply to new listings where their listing applications are submitted on or after 1 August 2011.

17. SFC Enhances Transparency of its Regulatory and Supervisory Work

The SFC has published two papers to explain its existing regulatory and supervisory framework for intermediaries.

A paper entitled [Regulatory Framework for Intermediaries](#) outlines the broad role and approach taken by, and the underlying philosophy that guides, the SFC in regulating intermediaries. A second paper, [Approach to Supervision of Intermediaries](#), focuses on the detailed processes underpinning the SFC's approach to supervision of intermediaries.

Taxation

18. Inland Revenue Issues Further Views on Proposed Tax Deductions for Intellectual Property Rights

In response to the Administration's replies to comments on the [Inland Revenue \(Amendment\) \(No.2\) Bill 2011](#), the Institute has made a [further submission](#), following on from its [first submission](#), reported in [TechWatch no. 104](#) (item 16).

In the further submission, the Institute reiterates and expands on its views that:

- (i) the deduction should cover the costs incurred in developing intellectual property

rights in house or under a cost-sharing arrangement;

- (ii) the proposed anti-avoidance measures are unnecessarily wide in their application and will inhibit the objective of the Bill to encourage and facilitate the development of creative industries in Hong Kong; and
- (iii) provisions with a similar effect to those in section 39E of IRO should not be imported into the Bill.

19. Tax on Dividends Paid to Hong Kong Residents by Mainland Companies

The Financial Services and the Treasury Bureau has recently made an announcement about the arrangements concerning the tax payable to the Mainland for dividends paid by Mainland companies to individual investors in Hong Kong. When Mainland, non-foreign investment companies listed in Hong Kong distribute dividends to their shareholders, individual shareholders in general will be subject to a withholding tax rate of 10%, with reference to the arrangement for the avoidance of double taxation signed between Mainland China and Hong Kong. For more details, click [here](#).

20. Registration of Business

The Inland Revenue Department ("IRD") has announced that it will not accept any applications for registration of businesses which have yet to commence operation. Click to read the [announcement](#).

The Revenue (Reduction of Business Registration Fees) Order 2010 will expire on 1 August 2011. For more information about the fees relating to any business or branch registration certificates which commence on or after that date and new registrations in July 2011, click to read the [announcement](#).

21. Obligations of Property Owners

The IRD has published a newspaper notice about the tax obligations of property owners. Click to read the [notice](#).

22. Procedures in Relation to the Stamp Duty (Amendment) Ordinance 2011

The [Stamp Duty \(Amendment\) Ordinance 2011](#) was published in the government gazette on 30 June 2011 to impose special stamp duty and cancel the existing arrangement for deferred payment of stamp duty. For the relevant procedures and the arrangements, click [here](#).

23. Tax Treaty with Czech Republic

Hong Kong signed a tax treaty with Czech Republic in June. Click to read the [announcement](#) and the [treaty's details](#).

Legislation & Other Initiatives

24. Institute Submits Views on the Companies Bill

The Institute has issued a [submission](#) on the [Companies Bill](#) ("CB"), which was gazetted on 14 January 2011 and introduced into the Legislative Council for its first reading on 26 January 2011. The CB seeks to update the provisions relating to the operation of companies under the Companies Ordinance ("CO").

Before the gazettal of the CB, the government conducted a two-phase consultation on a draft CB, in 2009 and 2010. The present CB has taken up many of the Institute's [comments on the draft CB](#) consultations and, in particular, the comments on Part 9 in relation to accounts and audit.

The Institute's main concern on the CB is that the provisions on consolidated accounts, including Schedule 1 (which is based on the existing Schedule 23 of the CO) are too detailed and contain definitions that will not easily accommodate changes to International Financial Reporting Standards ("IFRSs"), in particular, the recently-issued IFRS 10, which will be effective from 2013 and will be adopted in Hong Kong as HKFRS 10.

In addition to the above, the submission reiterates certain of the Institute's comments

made during the consultation on the draft CB, which have not been taken up in the CB.

25. Institute's Views on Proposed Establishment of a Policyholder's Protection Fund

The Institute has issued a [submission](#) on a [consultation](#) in relation to the proposed establishment of a Policyholders' Protection Fund ("PPF") to provide a safety net for policyholders against insurer insolvency.

While supporting the proposal in principle, the Institute has some reservations as to whether the initial target fund size for the Non-Life Scheme, which is HK\$75 million and to be built up over 15 years, is adequate. It has also recommended that the relevant legislation should state clearly the PPF's responsibility for preparation of its statement of accounts (including what constitutes the statement of accounts of the PPF and the basis of preparation) and the reporting requirements of the auditor (e.g. the type of opinion, reporting timeframe) on the PPF's statement of accounts.

26. Consultation Conclusions on Independent Insurance Authority

On 24 June, the government released [consultation conclusions and detailed proposals](#), including the functions, powers, funding mechanism, governance and organization of the proposed Independent Insurance Authority, with the objective of enhancing the insurance regulatory regime.

The aim is for draft key legislative provisions to be made available in early 2012.

27. Latest Notices on AML/CFT

Members may wish to note that the following notices in relation to combating money laundering/terrorist financing ("AML/CFT"):

- [Financial action task force \("FATF"\) public statement](#): Draws attention of its members (Hong Kong has been a member since 1990) on the risks of transactions involving Iran, Democratic People's

Republic of Korea, Bolivia, Cuba, Ethiopia, Kenya, Myanmar, 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:** The FATF is conducting a second public consultation relating to the review of the 40+9 Recommendations. Click for the **first consultation paper** and its **results** (look under "Results of the public consultation (first phase)").
- **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

28. 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.

29. Other Publications

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

- (i) In June 2011, HKEx published:
 - **Policy** on share trading suspension, illustrated by some common scenarios

and explanations on how the suspension policy applies

- three listing decisions in relation to:
 - whether the Interim Guidance on Pre-IPO Investments applied to a secondary listing applicant's proposed issue of securities to independent investors (**LD12-2011**)
 - whether the Exchange required aggregation of a listed issuer's construction contracts with associates of a substantial shareholder of its subsidiary (**LD13-2011**)
 - whether the Exchange required aggregation of the agreements between a listed issuer and its parent company for (i) contracting out works to the listed issuer; and (ii) the listed issuer sub-contracting works back to the parent group (**LD14-2011**)
 - amendments to IPO checklists relating to standard comments on disclosure of directors and senior management information (**CF100M, CF069M, SC001M, FF039M, CF100G, CF045G, SC001G**)
 - **FAQs** and **presentation materials** on models for RMB initial public offerings
 - **Report** on initial public offering applications, delisting and suspensions (as at 30 June)
- (ii) In June 2011, SFC published:
- **Takeovers and mergers panel decision** – ruled that the Codes on Takeovers and Mergers and Share Repurchases is not applicable to Husky Energy upon completion of its proposed secondary listing on the Hong Kong Stock Exchange

- (iii) Articles on corporate governance by Deloitte:
- **Board leadership: A global perspective**
 - **Audit committee brief: Key factors shaping financial reporting – The decade ahead**
 - **Audit committee leading practices and trends**
 - **Asia Pacific economic outlook: Australia, China, Indonesia, Japan and Thailand**
 - **SEC sets final whistleblower rules**
- (iv) **Guide to sustainability reporting for listed companies** by Singapore Exchange