



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](mailto:commentletters@hkicpa.org.hk) >. Click [here](#) for past issues.

## Contents

### Standard Setting Developments

#### Members' Handbook

1. Handbook Update No. 184

#### Financial Reporting

2. The Institute's Financial Reporting Standards Committee Meeting Minutes

#### Audit & Assurance

3. Institute Comments on an IAASB Invitation to Comment

#### Ethics

4. Institute Comments on an IESBA Exposure Draft

#### International Meetings

5. IASB
6. IFRS Interpretations Committee
7. IASB ASAF
8. IAASB
9. IESBA

#### Useful Resources

10. Publications

### Advocacy and Practice Development/Member Support

#### Professional Accountants in Business

11. HKEX Reports on its Review of Listed Issuers' Corporate Governance Practice Disclosure
12. HKEX Launches Revamped ESG Webpage
13. CFO DNA is Being Disrupted

#### Corporate Finance

14. Takeovers Panel's Recent Ruling on Breach of Takeovers Code

#### Restructuring and Insolvency

15. Changes to the Winding Up Provisions Enacted

#### Taxation

16. Announcements by the Inland Revenue Department ("IRD")
17. Institute Issues Further Submission on Automatic Exchange of Information Bill

#### Legislation & Other Initiatives

18. Companies Registry Launches Full Scale Company Search Mobile Service
19. Anti-Money Laundering/Combating the Financing of Terrorism ("AML/CFT") Notices

#### Useful Resources

20. Library Resources
21. Other Publications

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## Standard Setting Developments

### Members' Handbook

#### 1. Handbook Update No. 184

**Update No. 184** contains HKFRS 16 *Leases*, the equivalent of IFRS 16 *Leases*.

HKFRS 16 eliminates the distinction between operating and finance leases for lessee accounting and introduces a single accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Lessor accounting however remains largely unchanged and the distinction between operating and finance lease is retained.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted provided HKFRS 15 *Revenue from Contracts with Customers* is also applied.

At its effective date, HKFRS 16 supersedes the following Standards and Interpretations:

- HKAS 17 *Leases*;
- HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*;
- HK(SIC)-Int 15 *Operating Leases—Incentives*; and
- HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The update also highlights that HK-Int-4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* will be withdrawn on 1 January 2019.

### Financial Reporting

#### 2. The Institute's Financial Reporting Standards Committee Meeting Minutes

The **minutes** for the FRSC meeting held on 22 March 2016 is now available and covers the following key items:

- The Institute's Standard Setting Department strategic direction and project plans for the next three years which include:
  - undertaking research on business combinations under common control in Hong Kong and financial instruments with characteristics of equity; and
  - undertaking more/extended outreach to understand implementation, auditing and enforcement issues as well as investor information needs on fair value accounting, goodwill and impairment accounting, and effective reporting/disclosures.
- Accounting treatment in practice on the classification of convertible bonds denominated in foreign currency.

### Audit & Assurance

#### 3. Institute Comments on an IAASB Invitation to Comment

The Institute **commented** on the IAASB's Invitation to Comment on *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. The Institute supports the IAASB's continuing efforts to enhance audit quality. The focus on professional skepticism, quality control and group audits is considered appropriate.

The Institute appreciates the IAASB's commitment in revising the standards such that they stay relevant in the face of continually changing circumstances. The Institute

encourages the IAASB to further develop guidance that covers key issues encountered by practitioners, in particular, application guidance on quality control and group audits.

## Ethics

### 4. Institute Comments on an IESBA Exposure Draft

The Institute **commented** on the IESBA's Exposure Draft on *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*.

The Institute acknowledges that the engagement quality control reviewer ("EQCR") plays an important role in an audit engagement. While the Institute agrees that extending the cooling-off period for the EQCR for audits of public interest entities could provide an effective 'fresh look' on the audit engagement, the Institute is also concerned that the proposals would pose further pressure on firm resources and reduce the availability of individuals suitably qualified to act in this role. This would lead to potential adverse consequences for audit quality, which might not be in the public interest.

The Institute is mindful that the benefits of such a 'fresh look' must be appropriately balanced with the costs of having stringent rotation requirements. In this regard, the Institute believes that it is crucial to analyze how the different rotation requirements would interact and how the entire package of safeguards would impact audit quality. The Institute, therefore, recommends that the IESBA reconsiders the proposals with caution and ensures that the rotation requirements are both robust and balanced.

## International Meetings

### 5. International Accounting Standards Board

The IASB met on 17-19 May 2016 and discussed the following topics:

- 2015 Agenda Consultation;
- Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*;
- IFRS 2 *Share-based Payment*;
- Financial Instruments with Characteristics of Equity;
- Income Taxes;
- Conceptual Framework;
- Disclosure Initiative;
- Equity Method of Accounting;
- Goodwill and Impairment; and
- Revenue from Contracts with Customers.

Click to view the **IASB Update** for this meeting. The IASB next meets on 20-24 June 2016.

### 6. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 10 May 2016 and discussed the following key standards:

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*;
- IAS 28 *Investments in Associates and Joint Ventures*;
- IAS 39 *Financial Instruments: Recognition and Measurement*;
- IAS 40 *Investment Property*; and
- IFRS 9 *Financial Instruments*.

Click to view the **IFRIC Update** for this meeting. The IFRS Interpretations Committee next meets on 12 July 2016.

## 7. IASB Accounting Standards Advisory Forum

The IASB ASAF next meets on [7-8 July 2016](#).

## 8. International Auditing and Assurance Standards Board

The IAASB next meets on [21-24 June 2016](#).

## 9. International Ethics Standards Board for Accountants

The IESBA next meets on [27-29 June 2016](#).

### Useful Resources

## 10. Publications

The Institute issued a [staff summary](#) on HKFRS 16.

Deloitte developed a [revenue resources page](#) that is a comprehensive collection of references relating to IFRS 15 *Revenue from Contracts with Customers*.

KPMG issued:

- a [latest news](#) on clarifications to IFRS 15, measurement of expected credit losses for banks, qualifying criteria for deferring IFRS 9 for insurers, and characteristics of equity within financial instruments;
- a [summary](#) of the latest meeting of the US FASB's Transition Resource Group for Revenue Recognition, which discussed implementation issues related to the revenue standard; and
- a [newsletter](#) highlighting the IASB's recent decisions in relation to applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*, which includes broadening the qualifying criteria for deferring IFRS 9 and introduced additional relevant disclosures.

PwC published an [update](#) covering key considerations for impairment testing under IAS 36 *Impairment of Assets*, IFRS Interpretations Committee's rejections on various topics at its March meeting and guidance for implementing IFRS 16.

The IASB published:

- the IASB Chairman's [speech](#) on performance reporting and pitfalls of non-GAAP metrics at the annual conference of the European Accounting Association on 11 May; and
- a [new resources page](#) for implementing IFRS 16.

## Advocacy and Practice Development/Member Support

### Professional Accountants in Business

#### 11. HKEX Reports on its Review of Listed Issuers' Corporate Governance Practice Disclosure

On 13 May, Hong Kong Exchanges and Clearing ("HKEX") **reported** the findings of its latest review of listed issuers' corporate governance practices. The review covered corporate governance reporting by 318 listed issuers with a financial year-end date of 31 March 2015 ("March FYE issuers") and analyzed their compliance with the Corporate Governance Code (the "Code") in the Listing Rules ("Rules").

Overall, the March FYE issuers' compliance level with the Code was high and comparable to the issuers with a financial year-end date of 31 December, except that fewer March FYE issuers reported that they had an internal audit function and more March FYE issuers did not report a board diversity policy.

The quality of explanations given for deviating from Code Provisions ("CPs") by the March FYE issuers was varied and reflected a degree of "boilerplate" use. HKEX expects that the explanation of any deviation from a CP should be informative and clear, and should:

- Explain the manner in which the company deviates from the CP;
- Explain the measure(s) taken instead of compliance;
- Describe the decision process; and
- Give considered reasons.

Members are encouraged to read the report entitled "**Analysis of Corporate Governance Practice Disclosure in March Year-end 2015 Annual Reports**".

#### 12. HKEX Launches Revamped ESG Webpage

HKEX has launched a revamped **Environmental, Social and Governance ("ESG") webpage**, which sets out practical steps, tools and reporting guidance aimed at helping listed issuers to start ESG reporting under the revised ESG Reporting Guide (the "Guide").

The revamp followed from HKEX's **announcement** on 21 December 2015 that it had decided to strengthen the Guide in its Rules after completion of the ESG consultation launched in July 2015. Amendments to the Guide and related Rules come into effect in two phases:

- Rule amendments and upgrade of the General Disclosures in the Guide from recommended to "comply or explain", as well as the revised recommended disclosures, have come into effect for listed issuers' financial years commencing on or after 1 January 2016; and
- Upgrade of Key Performance Indicators in the "Environmental" Subject Area of the Guide from recommended to "comply or explain" will come into effect for listed issuers' financial years commencing on or after 1 January 2017.

#### 13. CFO DNA is Being Disrupted

The role of a chief financial officer ("CFO") is being disrupted by digital; data; risk and uncertainty; regulation and stakeholder scrutiny. CFOs who do not proactively define their role in response to these major forces could compromise their ability to shape strategy with the CEO and drive the innovation necessary for sustainable growth.

In the latest CFO research study "**Do you define your CFO's role? Or does it define you? The disruption of the CFO's role**" conducted by Ernst & Young, it is noted that the profiles and priorities of CFOs around the world are undergoing a transformation. Digital innovation, the proliferation of data, volatile risk, new regulations, and increasingly demanding



stakeholders are changing the role of the CFOs, who are increasingly finding themselves stretched thin.

To help PAIBs respond to the impact from, particularly innovation and technology, and take control of their professional development, the Institute's PAIB Committee is organizing its annual PAIB conference "*Technology – Friend or Foe?*" which will be held on 3 September.

### Corporate Finance

#### 14. Takeovers Panel's Recent Ruling on Breach of Takeovers Code

On 18 May, the Takeovers and Mergers Panel ("Takeovers Panel") published its **written decision** setting out the reasons for its ruling that Alibaba Group Holding Limited ("Alibaba Group") has breached the Takeovers Code in its acquisition of CITIC 21CN Company Limited ("CITIC 21CN"), later renamed as Alibaba Health Information Technology Limited.

The case is in relation to a ruling on whether certain agreements between Mr. Chen Wen Xin (a shareholder of CITIC 21CN) and a subsidiary of Alibaba Group constituted a special deal under Rule 25 of the Takeovers Code; and, if they did, whether the whitewash waiver granted was invalidated; and, as a consequence, was a mandatory general offer obligation triggered and, if so, at what price will the mandatory general offer be made.

Read the **press release** and the **Takeovers Panel's decision** for details.

### Restructuring and Insolvency

#### 15. Changes to the Winding Up Provisions Enacted

**The Companies (Winding Up and Miscellaneous Provisions) (Amendment) Ordinance 2016** was enacted on 27 May and gazetted on 3 June 2016. The Ordinance aims to improve and modernize Hong Kong's corporate winding-up regime by providing measures to increase protection of creditors, as well as streamline and further enhance the integrity of the winding-up process.

Please click **here** for the government's press release. The Institute's submission on the earlier bill can be read at **here**.

### Taxation

#### 16. Announcements by the Inland Revenue Department ("IRD")

Members may wish to be aware of the following matters:

- Publication of **Departmental Interpretation and Practice Notes ("DIPN") No. 51** on Profits Tax Exemption for Offshore Private Equity Funds, and **revised DIPN No. 43** on Profits Tax Exemption for Offshore Funds in view of the legislative changes
- Gazettal of **two orders** on avoidance of double taxation agreements with Romania and Russia
- Notices on **filing tax return on time**, and **tax obligations of taxpayers and employers**
- **The passage** of Inland Revenue (Amendment) (No. 2) Bill 2016, aiming to give effect to two major concessionary revenue measures proposed in the 2016-17 Budget, including one-off measures to reduce salaries tax and profits tax for 2015-16 by 75 per cent, subject to a ceiling of \$20,000 per case. The other measure involves adjustments to two categories of allowances under salaries tax and tax under personal assessment.
- **Gazettal of the Inland Revenue (Amendment) (No.2) Ordinance**, covering concessions to attract corporate treasury centres and clarification of the tax and stamp duty treatment of banks' regulatory capital securities.
- **Suspended jail sentence and fine for taxpayer falsely claiming expenses of self-education and approved charitable donations**
- **The IRD's Performance Pledge Annual Report 2015/16**

## 17. Institute Issues Further Submission on Automatic Exchange of Information Bill

The Institute issued a **second submission** on the Inland Revenue (Amendment) Bill 2016, calling for improved safeguards for taxpayers, amongst other things, and reiterating some of the concerns raised in the Institute's **previous submission**.

### Legislation & Other Initiatives

## 18. Companies Registry Launches Full Scale Company Search Mobile Service

With effect from 20 May, a full scale Company Search Mobile Service covering all search services and functions is provided at the Companies Registry's mobile platform, at [www.mobile-cr.gov.hk](http://www.mobile-cr.gov.hk). Users may conduct company searches using smartphones and mobile devices to obtain up-to-date company information, including image records of documents registered with the Registry.

For details, please refer to the **Companies Registry External Circular No. 1/2016**.

## 19. Anti-Money Laundering/Combating the Financing of Terrorism ("AML/CFT") Notices

Members may wish to note the following notices and publications in relation to AML/CFT:

- **Government notice 2358**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **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 AML/CFT, see the Institute's **Anti-money Laundering Bulletin 1**, "Requirements on anti-money laundering, anti-terrorist financing and related matters", and the **supplement** on suspicious transaction reporting.

### Useful Resources

## 20. Library Resources

**Featured titles** and **new books** for members' reference 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.

## 21. Other Publications

- (i) The following frequently asked questions ("FAQs"), guidance letters and listing decisions published by HKEX are updated due to withdrawal of guidance letters superseded by **GL86-16** *Guide on Producing Simplified Listing Documents Relating to Equity Securities for New Applications*

- **FAQ001-2016**
- **FAQ003-2016**
- **GL41-12**
- **GL56-13**
- **GL63-13**
- **GL86-16**
- **LD48-2013**
- **LD75-2013**
- **LD84-2014**
- **LD91-2015**

- (ii) HKEX has published:

- a new guidance letter on initial public offering vetting and suitability for listing (**HKEX-GL68-13A**)
- **report** on initial public offering applications, delisting and suspensions (as at 31 May)

(iii) On 24 May, the Financial Services Development Council published a report entitled **Hong Kong as a Regional Green Finance Hub**, which makes recommendations to help Hong Kong position itself as a leading centre for green finance in the region. Green finance is a broad term that refers to capital raising and financial investment flowing into projects, products and companies that support the development of a more sustainable, low-carbon and climate-resilient economy.

(iv) Other publications:

- **Insights from 2015 IFAC Global SMP Survey: Size matters** by IFAC SMP Committee
- **M&A: The intersection of due diligence and governance** by Deloitte
- **How CPA firms can evolve for continued success** by Journal of Accountancy
- **How do Gen Y and Z accountants want to learn?** by Business Learning Institute
- **Adapting to survive and thrive in a world of change** by Chartered Professional Accountants of Canada
- **Digital currencies: Where to from here** by Chartered Accountants Australia and New Zealand
- **It's the year 2020...how's your cybersecurity** by The Conversation
- **How to help startups achieve accounting success** by Accounting Today