



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

TechWatch

News at a glance



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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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Financial Reporting, Auditing and Ethics

New!

1. New Technical Learning and Support Programme from January to March 2014

The Institute will run a series of technical update evenings ("TUE"), workshops and seminars for accounting, auditing and ethics from January to March 2014 as follows:

- **TUE – Common HKFRS application issues**
- **TUE – Basic principles and insights on Fair value measurements**
- **TUE – New Companies Ordinance (Financial reporting issues)**
- **TUE – A checkpoint on new and revised accounting pronouncements as at 31 December 2013**
- **TUE – Practical guidance in preparing financial statements for 2013**
- **Workshops for Audit Manager/Audit Staff**
- **Audit Practice Manual Application Workshop**
- **HKFRS for Private Entities Workshops**
- **Seminar on Ethics Circular 1 (Revised) Guidance for Small and Medium Practitioners on the Code of Ethics for Professional Accountants**

To secure seats, please register early by completing the registration forms by clicking on the above event titles.

Click [here](#) for an indicative list of topics to be included in the technical learning and support programme from July 2013 to June 2014.

Members' Handbook

2. Handbook Update No. 135

Update No. 135 relates to the issuance of *Defined Benefit Plans: Employee Contributions* (Amendments to HKAS 19 (2011) *Employee Benefits*) and HKFRS 9 *Financial Instruments* (Hedge Accounting and amendments to HKFRS 9, HKFRS 7 *Financial Instruments: Disclosures* and HKAS 39 *Financial Instruments: Recognition and Measurement*).

The narrow-scope amendments to HKAS 19 (2011) apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

In addition, the issuance of HKFRS 9 completes another phase of the IASB's project to replace HKAS 39. The amendments:

- bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;
- allow the changes to address the so-called "own credit" issue that were already in HKFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and
- remove the 1 January 2015 mandatory effective date of HKFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements, which will now become effective from a later date yet to be announced.

Financial Reporting

3. HKICPA Financial Reporting Standards Committee

The FRSC minutes of the meetings held on **1 August 2013** and **13 November 2013** covered the following items:

- IASB Consultation Papers
- Limited Invitation to Comment on Consultation Draft of SME-FRF & SME-FRS (Revised)
- Companies Ordinance (Financial Reporting) Application Issues
- Annual Accounting Update Conference 2013
- Report on IFRS Advisory Council Meeting on 14-15 October 2013
- Report on International Meetings
- Forthcoming AOSSG Annual Meeting
- IASB Discussion Paper on Conceptual Framework

4. Invitation to Comment on IASB ED

The Institute has issued an **Invitation to Comment** on IASB Exposure Draft ("ED") of *Annual Improvements to IFRSs 2012-2014 Cycle*, with comments requested by **14 February 2014**.

As stated in the IASB's press release, accompanying the ED, the five proposed amendments to four IFRS reflect issues discussed by the IASB in the project cycle that began in 2012. These amendments meet the criteria for the annual improvements process set out in the IASB's *Due Process Handbook*. The criteria help in deciding whether a matter relating to the clarification or correction of IFRS should be addressed using the annual improvements process.

Audit & Assurance

5. HKICPA Auditing and Assurance Standards Committee

The **AASC minutes** of the meeting held on 19 November 2013 covered the following items:

- Work Plan Status Report and Update from Working Groups
- Revised PN 810.2 *The Duties of the Auditor of an Insurer authorized under the Insurance Companies Ordinance*
- Revised PN 860.1 *The Audit of Retirement Schemes*
- Revised AATB 1 *Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting*
- ED on HKSIR 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness*
- Amendments to pronouncements arising from the new Companies Ordinance
- Accountants' Report Sub-Committee

6. Invitations to Comment on Consultation Papers

- (i) ED Revised Practice Note ("PN") 850 *Reporting on Flag Days and General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department*

The Institute has issued an **Invitation to Comment** on ED Revised PN 850, with comments requested by **20 January 2014**.

The proposed revised PN 850 has been updated to align with pronouncements such as the clarified HKSAs, Hong Kong Standard on Assurance Engagements

(HKSAE) 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the current drafting conventions.

In addition, guidance in the extant *Circular on Reporting on General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department (Other than Flag Days)* has been elevated into the proposed ED. The proposed revised PN 850 provides guidance for reporting on both flag days and general charitable fund raising activities. HKSAE 3000 is the reporting framework used for these engagements.

- (ii) IAASB Consultation Paper on Proposed Strategy for 2015-2019 and Work Program for 2015-2016

The Institute has issued an [Invitation to Comment](#) on IAASB Consultation Paper on Proposed Strategy for 2015-2019 and Work Program for 2015-2016, with comments requested by **4 March 2014**.

The Consultation Paper has been developed taking into account input received from the IAASB's March 2013 stakeholder survey, the results of the IAASB's recently completed post-implementation review of the clarified ISAs, and other input from stakeholders, along with consideration of relevant current developments.

The IAASB has identified three strategic objectives for the period 2015–2019:

- Develop and maintain high-quality ISAs that are accepted as the basis for high-quality financial statement audits;
- Ensure the IAASB's suite of standards continues to be relevant in a changing world by responding to stakeholder needs; and

- Collaborate and cooperate with contributors to the financial reporting supply chain to foster audit quality and stay informed.

Within the context of the proposed strategic objectives, the IAASB intends to focus its efforts in 2015–2016 on the topics of quality control, professional skepticism, and special audit considerations relevant to financial institutions.

Ethics

7. Invitation to Comment on IESBA Consultation Paper

The Institute has issued an [Invitation to Comment](#) on IESBA Consultation Paper on Proposed Strategy and Workplan 2014-2018, with comments requested by **5 February 2014**.

As stated in the IESBA's press release, the Consultation Paper was developed with input from a survey conducted in 2013 and other consultative activities. It lays out four proposed strategic themes to reflect IESBA's vision for the medium to longer term and to guide its work plan over the five-year period:

- Maintaining a high-quality Code of Ethics for application by professional accountants globally;
- Promoting and facilitating the adoption and effective implementation of the Code;
- Evolving the Code for continued relevance in a changing global environment; and
- Increasing engagement and cooperation with key stakeholders.

The IESBA is undertaking this consultation to obtain views on its proposed future strategy, including possible actions and priorities identified to implement the strategy. The input received will enable the IESBA to set the course for its future activities in support of its public interest mandate.

International Meetings

8. International Accounting Standards Board

The IASB met on 12 December 2013, and discussed the following topics:

- Post-implementation Review of IFRS 3 *Business Combinations*
- IFRIC Update
- Equity Method: Share of Other Net Assets Changes (Proposed amendment to IAS 28 *Investments in Associates and Joint Ventures*)
- Clarification of Acceptable Methods of Depreciation and Amortization (Proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*)
- Actuarial Assumptions: Discount Rate (Proposed amendments to IAS 19 *Employee Benefits*)
- Annual Improvements – IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Short term exemptions from IFRSs
- Financial Instruments: Impairment
- Financial Instruments: Classification and Measurement
- Fair Value Measurement: Unit of Account

Click to view the IASB Update on the meeting of [12 December 2013](#). The IASB next meets in January 2014.

9. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in January 2014. Click [here](#) for details.

10. IFRS Accounting Standards Advisory Forum

The IFRS ASAF next meets in March 2014. Click [here](#) for details and previous meeting summary.

11. International Auditing and Assurance Standards Board

The IAASB next meets in March 2014. Click [here](#) for details and previous meeting summary.

12. International Ethics Standards Board for Accountants

The IESBA next meets in April 2014. Click [here](#) for details and previous meeting summary.

Useful Resources

13. Publications

- (i) KPMG [Briefing note](#) on the new Companies Ordinance
- (ii) Deloitte [Illustrative HKFRS financial statements](#) to reflect new and revised standards effective for 2013
- (iii) PwC [Guide](#) on IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*
- (iv) PwC [Practical Guide](#) on deferred tax and business combinations
- (v) KPMG [Comparison](#) between IFRS and US GAAP
- (vi) KPMG [Reminder](#) on newly-effective financial reporting standards
- (vii) IFAC [Guide](#) on performing review engagements under ISRE 2400
- (viii) EY [Guide](#) to application issues related to IFRS 10

- (ix) PwC **Guide** to additional disclosure requirements under IFRS 13 *Fair Value Measurement*
- (x) AOSSG **Communique** for the annual meeting held in November 2013

Comment Due Dates

20 January 2014: IASB ED of *IFRS for SMEs*

20 January 2014: ED Revised PN 850 *Reporting on Flag Days and General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department*

5 February 2014: IESBA Consultation Paper on Proposed Strategy and Workplan, 2014-2018

14 February 2014: IASB ED of *Annual Improvements to IFRSs 2012-2014 Cycle*

4 March 2014: IAASB Consultation Paper on Proposed Strategy for 2015-2019 and Work Program for 2015-2016

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

14. IIRC Issued International Integrated Reporting Framework

The release of **The International Integrated Reporting ("IR") Framework** on 9 December, marks an important milestone in the market-led evolution of corporate reporting. It follows a three-month global consultation led by the International Integrated Reporting Council, which elicited over 350 responses from every region in the world, the overwhelming majority of which expressed support for IR.

IR applies principles and concepts that are focused on bringing greater cohesion and efficiency to the reporting process, and adopting "integrated thinking" as a way of breaking down internal silos and reducing duplication. It improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital. Its focus on value creation, and the "capitals" used by the business to create value over time, should contribute towards a more financially stable global economy and be a force for sustainability.

The framework will be used to accelerate the adoption of IR across the world, where it is currently being trialled in over 25 countries, 16 of which are members of the G20, a group of nations focused on strengthening the global economy.

Corporate Finance

15. Hong Kong IPO Guide 2014

Hong Kong IPO Guide 2014, published by LexisNexis and supported by the Institute and other organizations, provides a comprehensive overview of the Hong Kong initial public offering ("IPO") process. It aims to help companies

interested in listing in Hong Kong to understand what needs to be done at each stage and how to gain control of the listing process.

16. Stock Exchange Sets New Records in 2013

Hong Kong Stock Exchange has set several new records in its securities and derivatives markets according to year-end [market statistics](#) for 2013. The market capitalization exceeded \$24 trillion for the first time, the turnover of exchange traded funds and REITs also reached record highs of \$874.2 billion and \$80.9 billion, respectively. The total turnover of securitized derivatives ranked first in the world for the seventh consecutive year. Click [here](#) for details.

17. Country Guides for Acceptable Jurisdictions of Incorporation

As reported in [TechWatch no. 132](#) (item 11), the Securities and Futures Commission ("SFC") and Hong Kong Exchanges and Clearing Ltd. ("HKEx") published a revised Joint Policy Statement regarding the listing of overseas companies in Hong Kong ("revised JPS").

Following the revised JPS, HKEx has recently published [20 Country Guides](#), one for each overseas jurisdiction acceptable by HKEx as a place of incorporation for issuers. The guides aim to enhance listing applicants' understanding of the HKEx's expectations, practices, procedures and considerations when applying the Listing Rules to overseas issuers.

Taxation

18. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- New [FAQs 10 to 13 about share-based payment transactions](#)
- The [gazetting](#) of the Inland Revenue (Amendment) (No. 3) Bill 2013, which seeks to lower the profits rate tax for captive

insurers and raise the deduction ceiling for contributions to recognized retirement schemes

- [Hong Kong double tax agreement with Qatar](#) has come into effect
- [Stamping circular no. 01/2014](#) about filing of return of stock borrowing transactions

Legislation & Other Initiatives

19. New Companies Ordinance

- (i) Companies Registry ("CR") circulars and guidelines

To prepare for the commencement of the new Companies Ordinance (Cap. 622) ("new CO") on 3 March 2014, the CR has issued the following circulars and guidelines.

External circulars:

- No. 1/2014: [Commencement of the new Companies Ordinance \(Cap. 622\)](#)
- No. 2/2014: [The New Companies Ordinance \(Cap. 622\) – Guidelines issued by the Registrar of Companies](#)
- No. 3/2014: [The New Companies Ordinance \(Cap. 622\) – A Guide on Directors' Duties](#)
- No. 4/2014: [The New Companies Ordinance \(Cap. 622\) - Major Changes in Filing Requirements](#)

Guidelines (effective upon the commencement of the new CO):

- [A Guide on Directors' Duties](#)
- [Guide on Communications to and by Companies](#)
- [Guideline on Registration of Company Names for Hong Kong Companies](#)

➤ **Guideline on Registration of Corporate Names for Registered Non-Hong Kong Companies**

The provisions of the new CO, the subsidiary legislation and other useful reference materials are available at the **New Companies Ordinance** section of the CR's website.

(ii) Hotline and e-mail address for enquiries

The CR has set up a dedicated hotline, at 3142 2822 from Monday to Saturday 9 am to 8 pm (excluding public holidays) for handling enquiries relating to the new CO. E-mail enquiries can be sent to [<cr.nco@cr.gov.hk>](mailto:cr.nco@cr.gov.hk).

20. Anti-Money Laundering

Members may wish to note the following notice and publications in relation to combating money laundering/terrorist financing ("AML"):

- **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, 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.

21. U.S. Bank Settles Large AML Case

It was reported on 7 January that JP Morgan Chase & Co had agreed to pay a total of over US\$2 billion to resolve charges laid by various government agencies, that it had failed to properly police Bernard Madoff's fraudulent activities due to a lack of proper AML controls. Click [here](#) for more details.

Useful Resources

22. Library Resources

Featured titles and **new books** of reference value to 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

(i) HKEx has published:

- A listing decision in relation to whether companies were suitable for listing given that they had conducted businesses in certain countries which were subject to trade or economic sanctions imposed by overseas governments before and during the track record period, and if so, how the issue could be addressed. (**HKEx-LD76-2013**)
- A listing decision (**HKEx-LD34-3**) in relation to whether profits from joint ventures over which a listing applicant had no absolute control could be attributed to the applicant to meet the three-year trading record requirement is superseded by **HKEx-LD106-1**
- New guidance letters in relation to:
 - suitability for listing (**HKEx-GL68-13**)
 - (i) a spin-off and separate listing of businesses or assets on the stock exchange; or (ii) a reverse takeover where the issuer is deemed a new listing applicant (**HKEx-GL69-13**)
- An updated guidance letter concerning disclosure requirements for IPO cases – White and Yellow Application Forms and "How to Apply for Hong Kong Offer Shares" section in a prospectus (**HKEx-GL64-13**) (December 2013)

- **Report** on IPO applications, delisting and suspensions (as at 31 December 2013)
- (ii) SFC has published:
 - **2nd quarter report**, which summarizes its key regulatory work in the reporting period from July to September 2013
 - **Issue no. 27 of Takeovers Bulletin**, which provides a summary of two disciplinary cases and an update on the Asia Pacific Takeovers Regulatory Forum
 - A report entitled **Risk-focused Industry Meeting Series: G-SIFI Trends in Risk and Risk Mitigation** and the corresponding **press release**, indicating that senior executives of global systemically important financial institutions ("G-SIFIs") have shown a high degree of awareness on the importance of improving risk governance and risk culture
 - Speech by
 - Carlson Tong, SFC chairman, on **Towards better corporate governance** and the corresponding **press release**, saying that the SFC would take a broader and more proactive approach in overseeing corporate conduct of listed companies
 - Alexa Lam, SFC deputy chief executive officer, on **RMB-related investment products**
- (iii) Articles on corporate governance by Deloitte:
 - **Risk transformation in financial institutions**
 - **CFO insights: defining – and delivering – your talent agenda**
 - **Audit committee brief – top issues for audit committees in 2014**
 - **Asia Pacific economic outlook – China, India, South Korea, and Taiwan**
 - **The 2014 boardroom agenda**