



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@hki CPA.org.hk >. Click [here](#) for past issues.

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Financial Reporting, Auditing and Ethics by:
Ben Lo, Katherine Leung

Specialist Practices, Business Members and Advocacy by:
Peter Tisman (Editor), Elena Chai, Mary Lam, Sharon Yeung,
Wallace Wong

Financial Reporting, Auditing and Ethics

New!

1. Quality Assurance Annual Report 2011

The Institute's quality assurance department has published its **annual report 2011** summarizing its work carried out under practice review and professional standards monitoring programmes. Major findings cover the following topics:

- Quality control policies and procedures
- Accounting issues arising from initial application of new or revised financial reporting standards, amendments and interpretations on HKFRS 3 (Revised) *Business Combinations*, HKAS 27 (Revised) *Consolidated and Separate Financial Statements*, Amendments to HKAS 17 *Leases* and HK Interpretation 5
- Application issues on standards such as accounting for impairment of assets, presentation of financial statements, disclosure of financial instruments, operating segments, revenue recognition, earnings per share, and classification of investments

Members' Handbook

2. Handbook Updates No. 114 to 116

- (i) **Update No. 114** relates to the issuance of Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*.

The amendments add an exception to the retrospective application of HKFRSs to require that first-time adopters apply the requirements in HKFRS 9 *Financial Instruments* and HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of

transition to HKFRSs. This means that first-time adopters shall not recognize the corresponding benefit of the government loan at a below-market rate of interest as a government grant. However, entities may choose to apply the requirements of HKFRS 9 and HKAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. These amendments give first-time adopters the same relief as existing preparers of HKFRS financial statements.

Entities are required to apply these amendments for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

- (ii) **Update No. 115** relates to the changes to Statement 1.500 *Continuing Professional Development* to reflect (1) the Mutual Recognition Agreement ("MRA") between Hong Kong and U.S. CPAs and its recognition of each other's CPD requirements for maintaining the CPD designation of the other body; and (2) the resultant change of CPD recognition away from membership of the American Institute of Certified Public Accountants ("AICPA"). The MRA does not have retrospective effect and the mutual CPD recognition is effective from the CPD reporting period beginning on 1 December 2011 for holders of an active license issued by a U.S. State Board of Accountancy who are not PC holders. AICPA members cannot opt for recognition of AICPA's CPD by the Institute from 1 December 2011.
- (iii) **Update No. 116** contains amendments to the Standards, Basis for Conclusions and Implementation Guidance which were previously set out in the Appendix to the Standards as they were not yet effective. The Institute has taken this opportunity to incorporate the amendments applicable on 1 January 2012 in the relevant affected Standards, Basis for Conclusions and Implementation Guidance, for greater clarity.

Financial Reporting

3. FRSC Minutes

FRSC minutes on 6 December 2011 cover:

- Report on AOSSG Third Annual Meeting and IFRS Foundation Conference in Melbourne, 23-25 November 2011
- Enhance involvement in AOSSG Working Group
- Consultation Paper on Proposals to reform the UK Financial Reporting Council
- Agenda items for discussion at the NSS meeting in March 2012
- IASB consultation documents
- Draft legal advice on true and fair view

4. Institute Comments on HKEx Consultation Paper

The Institute made a **submission** to the HKEx Consultation Paper on Environmental, Social and Governance ("ESG") Reporting Guide. This recognizes the increasing importance of ESG issues to company valuations and of the development and implementation of areas of corporate reporting on these issues that is occurring globally.

Hong Kong will benefit from the introduction of a consistent approach to ESG reporting which is practical for low-cap companies. The HKEx proposals provide a welcome starting point. There are, however, a few areas that the Institute believes need to be further considered in formulating final guidance.

- The guide is mainly a list of Key Performance Indicators ("KPI"). There is risk that this will lead to a 'tick box' response where companies provide data without making it clear what their key ESG issues are.
- In preparing its ESG guide HKEx has taken items from different international standards and the mixture of standards adds

complexity and inconsistency. The Institute would encourage HKEx to make its ESG guide a subset of Global Reporting Initiative ("GRI")'s framework for two reasons. Firstly it is the only one of the 'international standards' quoted by HKEx which provides a comprehensive set of KPI definitions. Secondly, GRI has become the 'de facto' global standard for ESG reporting with many more companies following it than any other system.

If the HKEx's reporting guideline is a subset of GRI then it is easier for companies using it to graduate to reporting to a GRI Application Level and thus gain greater credibility for their reporting.

- HKEx leaves it for companies to define each KPI rather than providing supporting information. This makes the ESG guide more difficult to implement than adopting a subset of GRI where such guidance is provided. This re-inventing of the wheel is also likely to result in inconsistent reporting from one company to the next.
- HKEx should apply its successful approach to internal control and risk management to ESG reporting. Namely, it should ask for statements in Annual Reports that: 'the Board considers the Company's most significant ESG issues to be []'. The statement should explain the process the Board followed to arrive at this conclusion and discuss the action that is being taken on the issues. This simple requirement will lead many Boards to ensure the management of their company has appropriate procedures for identifying and managing ESG issues.
- HKEx does not recommend companies to seek independent assurance on the ESG information they report given the cost of such assurance and the absence of other Stock Exchanges encouraging assurance. ESG information is, however, becoming increasingly important to company valuations and assurance improves its quality so it is difficult to see why independent assurance should not be a best practice.

Audit & Assurance

5. AATB 2 Guidance to the Auditor when Responding to Questions at an Annual General Meeting

As reported in the last issue of [TechWatch](#) on AATB 2 guidance to the auditor on responding to questions at an Annual General Meeting ("AGM") of a company listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), it should be further noted that in general, the auditor does not owe a duty of care to individual shareholders or third parties when carrying out the audit work save in exceptional circumstances (for example, where damage is foreseeable and there is a special relationship of proximity between the auditor and the individual shareholder or third party such that it is fair, just and reasonable for the law to impose a duty of care; or where the auditor has voluntarily assumed responsibility to the individual shareholder or third party concerned). If the auditor believes such exceptional circumstances arise, the auditor should be cautious in answering questions raised at AGMs and seek legal advice when in doubt.

The auditor may consider reading or circulating a short disclaimer before answering questions to the effect that, notwithstanding any answers he/she gives or statements he/she makes, the auditor shall not have any liability, responsibility or duty of care towards any individual shareholders or third parties.

Click [here](#) for details of AATB 2.

International Meetings

6. International Accounting Standards Board

The IASB met on 16-20 April 2012, and discussed the following topics:

- Annual improvements: IAS 38 and IAS 16—revenue-based depreciation method
- Financial Instruments: Classification and measurement
- Financial Instruments: Impairment

- IFRS Interpretations Committee update
- Insurance contracts
- Investment entities

Click to view the IASB Update on the meetings on [16-20 April](#). The IASB next meets in May 2012.

7. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in May 2012. Click [here](#) for the next meeting's details.

8. International Auditing and Assurance Standards Board

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

9. International Ethics Standards Board for Accountants

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

Useful Resources

10. Publications

The following are publications on various topics:

- (i) Effective dates of IFRS:
 - [Reminder](#) by KPMG
- (ii) IASB's agenda consultation:
 - [Speech](#) by Chairman of IASB
- (iii) New IFRSs for 2012:
 - [Guide](#) by PwC

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

11. Comments on the COSO's Internal Control – Integrated Framework

The Professional Accountants in Business Committee of International Federation of Accountants ("IFAC PAIBC") submitted a [comment letter](#) to the Committee of Sponsoring Organizations of the Treadway Commission on the captioned subject which suggests broadening the scope of the Framework and the definition of internal control as well as including a strategic objective and an objective setting component.

12. Proposed Changes to the Code of Ethics for Professional Accountants on Conflicts of Interest

IFAC PAIBC provided the International Ethics Standards Board for Accountants ("IESBA") with its [comment](#) on the Code, including expansion of some of the definitions and parameters to better cover the work and domain of PAIBs and how PAIBs can further an ethics-based culture in their organizations, including developing a code of conduct in line with the relevant provisions with the Code.

Corporate Finance

13. HKEx Plans for Renminbi Futures

Hong Kong Exchanges and Clearing ("HKEx") has recently [announced](#) plans to introduce Renminbi ("RMB") currency futures (USD/CNH futures contract) in the third quarter of 2012, subject to regulatory approval and market readiness. The aim is to provide a way for investors to hedge RMB exposures.

USD/CNH futures contract requires delivery of US dollars by the seller and payment of the final settlement value in RMB by the buyer at maturity. The proposed contract specifications are set out in the [circular](#).

14. HKEx Brings News and Market Information to Smartphones

HKEx [announced](#) the launch of HKEx Mobile, a new website designed for smartphones, which can be found at <m.hkex.com.hk>, to enable investors to get up-to-date HKEx news, securities and derivatives market data and stock quotes through their smartphones.

Corporate Governance

15. New Corporate Governance Code Provisions Take Effect

Members should be reminded that a number of the new provisions in the Corporate Governance Code for listed companies took effect on 1 April 2012. Further details are in the [press release](#) issued last year by HKEx, see also [TechWatch no. 109](#) (item 26).

Taxation

16. Meeting with FSTB (Treasury)

The Institute has initiated a meeting with the Financial Services and the Treasury Bureau (Treasury Branch), which is the arm of the government that deals with tax policy issues. The notes of the meeting is published in the form of an [electronic tax bulletin](#).

17. A New e-Tax Service

[A new service](#) allowing online registration of Stock Borrowing and Lending Agreement via e-Tax is now effective from 23 April 2012.

18. Business Registration

- [Possible consequence](#) of not applying the business registration on time.
- [How to register business](#), including levy collection for the Protection of Wages on Insolvency Fund.
- [Waiver of Business Registration Fees](#) from 1 April 2012 to 31 March 2013.

19. Double Tax Agreements

- The [exchange of notes](#) between Hong Kong and Japan regarding article 11 of their treaty.
- Hong Kong signed a double tax agreement with Malaysia on 25 April 2012. Click to read the [announcement](#) and the [details of the agreement](#).
- The tax treaties between Hong Kong and the following countries are now in force:
 - [Indonesia - 28 March 2012](#)
 - [Spain - 13 April 2012](#)

20. Inland Revenue (Amendment) Bill 2012 Gazetted

[Inland Revenue \(Amendment\) Bill 2012](#), which aims to implement the concessionary revenue measures proposed in the 2012-13 Budget, was gazetted on 27 April 2012.

21. Notices Issued by the IRD

Members should pay attention to the [bulk issue of salaries tax returns](#) on 2 May 2012 and [the latest list of qualifying debt instruments](#) as at 31 March 2012.

22. Taxpayer's Deduction Claim on Plastic Moulds Used by Another Party is Denied

In [Board of Review Case D18/11](#), plastic moulds were used by another company with the taxpayer's consent to produce products on its behalf. The board did not allow deduction of the moulds under section 16G of the Inland Revenue Ordinance ("IRO"). The moulds were excluded fixed assets, as the other company held right as a lessee under a lease. "Excluded fixed assets" and "lease" are respectively defined in [section 16G\(6\)](#) and [section 2](#) of the Inland Revenue Ordinance.

Legislation & Other Initiatives

23. Legislation on Price Sensitive Information Disclosure Passed

After extensive deliberation by the Bills Committee (see the [Bills Committee report](#)

for details), the [Securities and Futures \(Amendment\) Bill 2011](#), which was introduced to the Legislative Council in mid-2011 to give statutory backing to price sensitive information disclosure requirements, was passed by LegCo on 25 April 2012.

The Institute issued two submissions ([1st submission](#), [2nd submission](#)) on the bill. See [TechWatch no. 109](#) (item 20) and [no. 111](#) (item 20), respectively, for further details.

It is noted that a number of the Institute's recommendations, in terms of clearer guidance on dealing with media reports, market rumours and analysts reports, the interpretation of what constitutes "material" or "significant", the scope of "officer" and officers' liabilities, will be addressed in the SFC guidelines on the application of the legislation.

24. Latest AML Notices

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

- [Government notice 1783](#): An updated list of relevant persons specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- [Government notice 1784](#): An updated list of relevant persons and entities specified under the United Nations Sanctions (Libya) Regulation 2011.
- [Government notice 2250](#): An updated list of terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- [Legal notice 51](#): The United Nations Sanctions (Democratic Republic of the Congo) Regulation 2012 was made under the United Nations Sanctions Ordinance. Section 5 of this regulation prohibits:
 - making available, directly or indirectly, any funds or other financial assets or economic resources to, or for the benefit of, a relevant person or a relevant entity, and

- dealing with, directly or indirectly, any funds or other financial assets or economic resources, owned by or otherwise belonging to, or held by, a relevant person or a relevant entity except with a licence.
- **Government notice 2251**: A list of relevant persons and entities specified under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2012.
- **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

25. 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.

26. Other Publications

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

(i) HKEx published:

- one listing decision in relation to whether a list applicant's financial and operational reliance on its parent company rendered it not suitable for listing ([HKEx-LD30-2012](#))
- guidance letters in relation to:
 - disclosure in IPO prospectus relating to use of proceeds ([HKEx-GL33-12](#))

- disclosure in listing documents relating to hard underwriting ([HKEx-GL34-12](#))
- a **guide on connected transaction rules** written in plain language
- **report** on IPO applications, delisting and suspensions (as at 30 April)
- **HKEx Securities and Derivatives Markets Quarterly Report** (1st quarter 2012)
- **Retail Investor Survey 2011** and the relevant **news release**

(ii) Articles on corporate governance by Deloitte:

- **Disclosure of long-term business value**
- **Political Contribution Disclosures and Oversight**
- **Asia Pacific economic outlook – China, Japan, The Philippines, Singapore and Taiwan**