



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.

Contents

Financial Reporting, Auditing and Ethics

New!

1. [New TUE session in June - Guardian Role of Professionals in Upholding Ethical Governance](#)

Financial Reporting

2. [FRSC Minutes](#)
3. [Invitations to Comment on Consultation Documents](#)

Audit & Assurance

4. [AASC Minutes](#)

International Meetings

5. [IASB](#)
6. [IFRS Interpretations Committee](#)
7. [IAASB](#)
8. [IESBA](#)

Useful Resources

9. [Publications](#)

Comment Due Dates

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

10. [Proposed International Guidance to Improve Business Reporting Processes from IFAC PAIBC](#)

Corporate Finance

11. [SFC Proposes to Enhance Sponsors Regulatory Regime](#)
12. [Financial Dispute Resolution Centre to be Established](#)
13. [HKEx Tightens Eligibility Criteria for Designated Securities for Short Selling](#)

Taxation

14. [Newspaper Notices](#)
15. [Li & Fung Case - Frequently Asked Questions](#)
16. [Advance Ruling on the Change of Accounting Date](#)
17. [Three Orders on Avoidance of Double Taxation Agreements Gazetted](#)
18. [LegCo Question on Combating Tax Evasion and Tax Avoidance](#)

Legislation & Other Initiatives

19. [Companies Bill - Proposed Criminal Sanctions against Auditors](#)
20. [Companies Registry Update](#)
21. [Abolition of Capital Duty from 1 June 2012](#)
22. [FAQ on Suspicious Transaction Reporting](#)
23. [Latest AML Notices](#)

Useful Resources

24. [Library Resources](#)
25. [Other Publications](#)

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Financial Reporting, Auditing and Ethics

New!

1. New TUE session in June - Guardian Role of Professionals in Upholding Ethical Governance

Representative from Hong Kong Ethics Development Centre, ICAC will discuss the role of accountants and company directors in upholding ethical governance on 19 June, Tuesday. This TUE session will cover the corruption risks and related malpractices and fraud in the workplace, and the relevant sections of Prevention of Bribery Ordinance and regulations in relation to the duties and responsibilities of professionals in preventing corruption and other malpractices.

Moreover, a re-run TUE session will be held in June to cover Ethics circular 1 - guidance for small and medium practitioners on the Code of Ethics for Professional Accountants.

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

Financial Reporting

2. FRSC Minutes

[FRSC minutes](#) on 6 March 2012 cover:

- Report on IFRS Advisory Council Meeting on 20 and 21 February 2012
- Welcome to new members and Committee composition for 2012
- Terms of Reference
- Meeting Schedule for 2012
- Minutes of the 198th meeting
- Work plan for 2012
- Consultation on Eligibility for the use of Small and Medium Sized Entity Financial

Reporting Framework and Financial Reporting Standards

- Report on the Meeting with Ministry of Finance in Guangzhou
- Implementation of HKFRS 10 in Hong Kong
- IASB Exposure Draft of Revenue from Contracts with Customers
- IASB Exposure Draft of Proposed Amendments to IFRS 10 – Transition guidance
- IASB's Post Implementation Review of IFRS 8
- The Strategy and Governance Review by IFRS Foundation Trustees and Monitoring Board
- IASB Roundtables in Malaysia and Japan
- EFRAG and the Organismo Italiano di Contabilità Discussion Paper on accounting for business combinations under common control
- Comparison between HKFRS and IFRS as at 31 December 2011

3. Invitations to Comment on Consultation Documents

- (i) IASB ED of *Proposed Improvements to IFRSs (Fifth Set)*

The Institute has issued an [Invitation to Comment](#) on IASB ED of *Proposed Improvements to IFRSs (Fifth Set)*, with comments requested by **1 August 2012**.

The IASB ED reflects issues discussed by the IASB in the project cycle that began in 2010. These amendments meet the 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 proposed effective date for the amendments is for annual periods beginning on or after 1 January 2014, while the amendment to IFRS 3 *Business Combinations* and the proposed consequential amendment to IFRS 9 *Financial Instruments* are for annual periods beginning on or after 1 January 2015. Early adoption is permitted for all the proposed amendments.

(ii) IFRS Foundation Consultation Document of *Due Process Handbook*

The Institute has issued an [Invitation to Comment](#) on IFRS Foundation Consultation Document of *Due Process Handbook*, with comments requested by **1 August 2012**.

The Handbook describes the steps followed by the IASB in developing or revising IFRSs, required or permitted for use by companies in more than 100 countries. Although previous revisions have been made to the handbook, this is the first time a major review has been undertaken since 2006.

The revised Handbook fully incorporates the necessary due process enhancements recommended by the recent Monitoring Board Governance Review and Trustees' Strategy Review, as well as recommendations from the Trustees' Review of the Efficiency and Effectiveness of the IFRS Interpretations Committee.

The proposed revisions to the Handbook are to:

- consolidate the due process requirements of the IASB and the IFRS Interpretations Committee, in addition to the protocols for due process oversight by trustees, into a single document;
- include a more extensive discussion of the process of assessing the likely effects of an IFRS;
- propose a methodology for the completion of post implementation reviews;

- reflect the ability of the Monitoring Board to refer urgent issues for consideration by the IASB;
- include consideration of due process requirements related to the extensive programme of outreach activities that is now routinely conducted by the IASB as part of its standard-setting activities;
- incorporate other enhancements to the IASB's due process resulting from the more active dialogue with the Trustees' Due Process Oversight Committee.

Audit & Assurance

4. AASC Minutes

This [AASC minutes](#) on 20 March 2012 mainly cover:

- AASC Work Plan 2012 – Status Report
- Amended "Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements"
- Auditing and Assurance Technical Bulletin 2 Guidance to the Auditor when Responding to Questions at an Annual General Meeting
- Draft Letter to the Office of the Privacy Commissioner for Personal Data

This [AASC minutes](#) on 17 April 2012 mainly cover:

- AASC Work Plan 2012 – Status Report
- ISRS 4410 (Revised) "Compilation Engagements"
- ISA 610 (Revised) "Using the Work of Internal Auditors" and ISA 315 (Revised) "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment"

- Amended "Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements"
- Auditor's Liability and Duty of Care when Responding to Questions at an Annual General Meeting

International Meetings

5. International Accounting Standards Board

The IASB met on 21-24 May 2012, and discussed the following topics:

- Agenda consultation
- Definition of the term "non-monetary asset"
- Effective date and transition methods
- Financial instruments: classification and measurement
- Financial instruments: impairment
- IFRS 10 *Consolidated Financial Statements* transition requirements
- Insurance contracts
- Investment entities
- Leases
- Post-implementation review—IFRS 8 *Operating Segments*
- Revenue recognition

Click to view the IASB Update on the meetings on [21-24 May](#). The IASB next meets in June 2012.

6. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 15-16 May 2012, and discussed the following topics:

- IAS 16 *Property, Plant and Equipment* – Contingent pricing of property, plant and equipment and intangible assets and IFRIC 12 *Service Concession Arrangements*—Payments made by an operator in a service concession arrangement
- IAS 32 *Financial Instruments: Presentation*—Put options written over non-controlling interests
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—Levies charged for participation in a specific market (date of recognition of a liability)
- IFRS Interpretations Committee tentative agenda decisions
- Issues considered for *Annual Improvements*
- Post-implementation review—IFRS 8
- IFRS Interpretations Committee work in progress
- Trustees' review of efficiency and effectiveness of the IFRS Interpretations Committee

Click to view the IFRIC Update on the meeting on [15-16 May](#). The IFRS Interpretations Committee next meets in July 2012.

7. 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.

8. 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

9. Publications

The following are publications on various topics:

- (i) Illustrative condensed interim financial statements:
 - [Illustrative interim financial statements](#) by PwC
- (ii) Overview of effective and upcoming changes in IFRSs:
 - [Update](#) by Ernst & Young
- (iii) Update report on accounting convergence:
 - [Report](#) by IASB and US FASB
- (iv) Progress update on IASB projects and quiz on IFRS 2:
 - [IFRS news](#) by PwC
- (v) New IFRSs applicable for 2012 year-ends and IFRS quiz on financial instruments standard:
 - [IFRS news](#) by PwC
- (vi) Updated IASB work plan:
 - [Work plan](#) by IASB
- (vii) New standard on consolidation:
 - [HKFRS Update](#) by RSM Nelson Wheeler
- (viii) Guidance to the Auditor when Responding to Questions at an Annual General Meeting
 - [Tech Q&A](#) by the Institute

Comment Due Dates

1 August 2012: IASB ED of *Proposed Improvements to IFRSs (Fifth Set)*

1 August 2012: IFRS Foundation Consultation Document of *Due Process Handbook*

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

10. Proposed International Guidance to Improve Business Reporting Processes from IFAC PAIBC

The Professional Accountants in Business Committee of International Federation of Accountants ("IFAC PAIBC") has published the proposed International Good Practice Guidance, [Eleven Principles for Effective Business Reporting Processes](#), which is designed to establish a benchmark for good practice in implementing effective business reporting processes in an organization. With this proposed publication, the PAIBC aims to help professional accountants in business and their organizations create a cycle of continuous improvement for their business reporting processes to assist stakeholders in making informed decisions about the organization. Deadline for comments is **23 August 2012**.

Corporate Finance

11. SFC Proposes to Enhance Sponsors Regulatory Regime

The Securities and Futures Commission ("SFC") has [launched](#) a two-month [consultation](#) on proposals to enhance the regulatory regime of sponsors, with comments requested by 6 July 2012. The proposals, combining new and existing sponsor requirements, will become part of the Code of Conduct for Persons Licensed by or Registered with the SFC. The key elements include:

- complete the bulk of due diligence when submitting a listing application;
- demonstrate that it is reasonable for a sponsor to rely on accountants' and valuers' work;

- post the first draft of the prospectus on the Hong Kong Exchanges and Clearing ("HKEx") website;
- restrict the number of independent sponsors for each listing to one only or a limited number;
- make clear that sponsors have civil and criminal liability for untrue statements in a prospectus, under the Companies Ordinance.

The Institute's corporate finance committee is currently studying the consultation paper.

A discussion forum on the consultation paper will be held on the evening of 25 June. At the forum, Brian Ho, SFC executive director of corporate finance, will explain the proposals and the requirements on sponsors. Refer to the [flyer](#) for details.

12. Financial Dispute Resolution Centre to be Established

The SFC has [announced](#) the publication of the [consultation conclusions](#) in relation to amendments to the Code of Conduct for Persons Licensed by or Registered with the SFC ("code of conduct") to facilitate the establishment of the Financial Dispute Resolution Centre ("FDRC") and enhance the regulatory framework.

Upon amending the code of conduct, financial institutions regulated by the SFC and the Hong Kong Monetary Authority ("HKMA") will be required to participate in the Financial Dispute Resolution Scheme ("FDRS") and inform their clients about their rights to refer disputes to the FDRC.

Other amendments, which aim to combat market misconduct and improve regulatory oversight of financial markets, include:

- extending the retention period for telephone recordings for client orders from three months to six months;
- banning the use of mobile phones to accept client orders in the workplace;

- requiring written authorizations to allow third parties to place orders in client accounts;
- requiring financial institutions to report to the SFC suspected breaches by clients of market misconduct provisions in Parts XIII and XIV of the Securities and Futures Ordinance; and
- requiring financial institutions to permit their employees to provide expert witness services to the SFC and the HKMA when they wish to, unless there is a reasonable basis to prevent them.

The FDRC-related amendments will take effect on 19 June 2012, while the others will come into force on 1 December 2012 to enable the industry to make the necessary adjustments to their systems.

13. HKEx Tightens Eligibility Criteria for Designated Securities for Short Selling

HKEx will implement changes to the short selling criteria for designated securities available for short selling, to reflect developments in the securities market, following a review conducted earlier this year.

The eligibility criterion related to the market capitalization and turnover velocity will be increased from \$1 billion to \$3 billion and from 40 percent to 50 percent, respectively. The change reflects the fact that the average market capitalization of listed companies in Hong Kong and the market turnover velocity has grown by a similar extent over the past decade.

The new Regulation for short selling eligibility criteria, which has been approved by the SFC, will take effect from 3 July 2012. See Regulation 18 of the [Eleventh Schedule of the Rules of the Exchange](#) for further details.

Taxation

14. Newspaper Notices

- Members should be reminded of the [deadline](#) for filing their individual tax returns.

- Members should pay attention to various **tax obligations** imposed under Sections 51 and 52 of the Inland Revenue Ordinance.

15. Li & Fung Case - Frequently Asked Questions

The IRD has published **FAQ** on the Li & Fung case, explaining the facts of the case, rulings by the Board of Review and the courts, reasons for not taking the case to the Court of Final Appeal, implications of the case, etc.

16. Advance Ruling on the Change of Accounting Date

The IRD has published an **advance ruling** relating to Section 18E of the Inland Revenue Ordinance.

The taxpayer had 31 March as its accounting date. Since the number of its subsidiary and sub-subsidiaries ("subsidiaries") in the Mainland had increased to five in 2011, the taxpayer decided to change its accounting date to 31 December to match the date of its subsidiaries. The IRD ruled that the taxpayer was allowed to adopt a nine-month period in the year of assessment 2011/12 and was not required to recompute its assessable profits for the year of assessment 2010/11.

17. Three Orders on Avoidance of Double Taxation Agreements Gazetted

Agreements with Kuwait, Switzerland and Malta for the avoidance of double taxation were **gazetted** on 18 May 2012. The **agreement** with Portugal, signed last year, took effect on 3 June.

18. LegCo Question on Combating Tax Evasion and Tax Avoidance

A **question** was raised in LegCo on 30 May 2012, concerning the significant increase in back tax and penalties derived from the ten major tax avoidance cases concluded in 2011/12. In his reply, the secretary for financial services and the treasury provided the corresponding breakdown and explained that the surge was attributable mainly to the above cases. He also indicated existing measures to combat tax evasion and tax avoidance, etc.

Legislation & Other Initiatives

19. Companies Bill - Proposed Criminal Sanctions against Auditors

As reported in **TechWatch no. 105** (item 24), the Institute **submitted views** on the **Companies Bill** ("CB") which is currently going through final hearings at the Legislative Council ("LegCo").

Clause 399 of the CB makes it a criminal offence, punishable by a fine of HK\$150,000, for an auditor to knowingly or recklessly omit a statement in the audit report, where (i) the financial statements are not in agreement with the accounting records in any material respect; or (ii) all the necessary and material information and explanations for the audit have not been obtained. The Institute wrote to the Bills Committee expressing grave concerns about the impact of the clause on the accounting profession and Institute representatives attended a Bills Committee hearing on 16 May. A further **submission** was made subsequent to the hearing, asking that the clause either be removed altogether or, at least, be amended, to require that the omission had to have been made dishonestly or with intent to defraud before a prosecution could be initiated. However, it seems that the Institute's proposal does not have the support of the Administration or the Bills Committee. Refer to an extract of the **CE Update May 2012 (Part 2)** and the **CE message - Alert to clause 399** for further details.

The Institute is now coordinating views with the aim of making another submission to the Bills Committee. Members will be kept informed of further developments.

20. Companies Registry Update

- Launch of Electronic Forms relating to Share Capital and Reserve Directors

The Companies Registry ("CR") has issued **Companies Registry External Circular No. 2/2012** to announce the launch of new services on 7 May 2012 for submission of six electronic forms relating to share capital and reserve directors at the **e-Registry**

portal. The CR website has also been updated as follows:

(a) **Electronic Services at the e-Registry** section

- Demonstration on “Same Changes for Many Companies”
- FAQ on **Electronic Submission of Commonly Filed Forms**

(b) FAQ section

- **Document Submission** – Q8
- **Electronic Submission of Commonly Filed Forms**
- **Electronic Company Incorporation and Business Registration** – Q7 and Q12
- **Third Party Software Interface > Payment** – Q4

(ii) To facilitate preparation for electronic submission of annual returns of local private companies having a share capital through the Third Party Software Interface ("TPSI") function at the **e-Registry**, the CR has uploaded the e-form template and XML data file sample of electronic Form AR1 onto the **Third Party Software Interface Specification** section of its website. Third party software developers and IT professionals can perform related tests on the TPSI function through the **TPSI testing environment**.

21. Abolition of Capital Duty from 1 June 2012

The **Companies Ordinance (Amendment of Eighth Schedule) Order 2012** to abolish capital duty, currently levied on Hong Kong companies under the Companies Ordinance, comes into operation on 1 June 2012. The CR has announced this in a **press release** and the **Companies Registry External Circular No. 3/2012**.

22. FAQ on Suspicious Transaction Reporting

The Institute has issued a new **bulletin**, which supplements anti-money laundering bulletin 1 (formerly, legal bulletin 1) issued by the Institute in 2006. It draws members' attention to some common questions on the obligations of suspicious transaction reporting in Hong Kong for combating money laundering/terrorist financing.

23. Latest AML Notices

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

- **Government notice 2774**: An updated list of terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 2775**: An updated list of relevant persons specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- **Government notice 2776**: An updated list of relevant persons and entities specified under the United Nations Sanctions (Eritrea) Regulation.
- **Government notice 2777**: An updated list of relevant persons and entities specified under the United Nations Sanctions (Libya) Regulation 2011.
- **Government notice 2778**: An updated list of relevant persons and entities specified under the United Nations Sanctions (Somalia) Regulation.
- **Government notice 2985**: An updated list of relevant persons and entities specified under the United Nations Sanctions (Liberia) Regulation 2012.
- Legal notices **71** & **72**: The United Nations Sanctions (Liberia) Regulation 2012 and the United Nations Sanctions (Liberia) Regulation 2011 (Repeal) Regulation were

made under the United Nations Sanctions 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 anti-money laundering, 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

24. 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.

25. Other Publications

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

(i) HKEx has published:

- one listing decision in relation to whether (i) disclosures relating to the allegations in the complaint against certain person(s) whose surname(s) was/were identical to those of a listing applicant’s previous management members were adequate, and (ii) whether a waiver from Rule 18.04 should be granted in view of the lack of a clear path to commercial production (**HKEx-LD31-2012**)
- guidance letters in relation to:
 - profit forecast (**HKEx-GL35-12**)

- risks and disclosure in listing documents regarding distributorship business model (**HKEx-GL36-12**)

- a **letter** to listed issuers reminding them of their continuous disclosure obligations
- **report** on IPO applications, delisting and suspensions (as at 31 May)

(ii) The SFC has published:

- May 2012 issue of **InvestEd Intelligence**, which discusses the implications of the Securities and Futures (Amendment) Ordinance 2012, and how the Qualified Foreign Institutional Investor (QFII), Qualified Domestic Institutional Investor (QDII) and Renminbi Qualified Foreign Institutional Investor (RQFII) schemes help develop cross-border investment.

(iii) Articles on corporate governance by Deloitte:

- **Audit committee brief – composition, meeting practices, and education**
- **International governance update**
- **Global economic outlook (2nd quarter 2012) – a collective sigh of relief**
- **Asia Pacific economic outlook – China, Japan, The Philippines, Singapore and Taiwan**