



TechWatch

News at a glance

Issue 117 • July 2012

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 in July to September

The New Technical Training and Support Programme covering the period from July to September 2012 has continuously been developed to focus on three major areas of expertise – accounting, auditing and ethics.

- Impact of Cloud Computing on Financial Reporting
- HKAS 36 *Impairment of Assets*
- New standards on consolidation, joint ventures and disclosure – HKFRS 10, 11 and 12 (Re-run)
- Ethics Circular 1 – Guidance for Small and Medium Practitioners on the Code of Ethics for Professional Accountants (Re-run)
- Training for Audit Manager
- Training for Audit Staff
- Audit Practice Manual Application Workshop
- HKFRS for Private Entities Workshop

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

Members' Handbook

2. Handbook Update No. 117

Update No. 117 contains *Annual Improvements 2009-2011 Cycle* which are effective for annual periods beginning on or after 1 January 2013, although entities are permitted to apply them earlier.

Annual Improvements 2009-2011 Cycle sets out a collection of amendments to HKFRSs which is

issued in response to the IASB's annual improvements project to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project.

Financial Reporting

3. Invitations to Comment on Consultation Documents

- (i) IFRS Interpretations Committee ED of *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*

The Institute has issued an [Invitation to Comment](#) on IFRS Interpretations Committee ED of *Levies Charged by Public Authorities on Entities that Operate in a Specific Market* which proposed guidance on the accounting for levies charged by public authorities on entities that operate in a specific market, with comments requested by **6 August 2012**.

A public authority may impose a levy on entities that operate in a specific market, such as a specific country, a specific region or a specific market in a specific country. The Interpretations Committee was asked to consider how an entity would account for the payment of levies, other than income taxes, in its financial statements; specifically, when the liability to pay a levy should be recognized. The proposed guidance clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy as identified by the legislation.

- (ii) IFRS Interpretations Committee ED of *Put Options Written on Non-controlling Interests*

The Institute has issued an [Invitation to Comment](#) on IFRS Interpretations Committee ED of *Put Options Written on Non-controlling Interests* which proposed guidance on the accounting for a put option written by a parent entity on the shares of its subsidiary held by a non-controlling-interest shareholder, with comments requested by **3 September 2012**.

A put option is a contract that gives the holder of the option the right to sell a specified asset to the writer of the option at a specified price within a specified time.

If a parent entity is obliged to purchase the shares of its subsidiary for cash or for another financial asset, the parent must recognize a financial liability in its consolidated financial statements for the present value of the option exercise price. The Interpretations Committee was asked to consider how to subsequently measure that financial liability, because diversity exists in practice.

In response to that request, the Interpretations Committee has proposed that all changes in the measurement of that financial liability should be recognized in profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*.

Audit & Assurance

4. Invitation to Comment on IVSC ED of a Practical Guide on *The Role of the Professional Valuer in the Audit Process*

The Institute has issued an [Invitation to Comment](#) on International Valuation Standards Council ("IVSC") ED of a Practical Guide on *The Role of the Professional Valuer in the Audit Process*, with comments requested by **15 August 2012**.

This Guide has been prepared by the IVSC Professional Board to provide professional valuers with a better understanding of an auditor's role and how professional valuers can be more effective when assisting auditors and entities during the audit process.

IFRSs and many other financial reporting standards require valuation measurements for certain assets, liabilities and equity interests. Professional valuers are often involved in the calculation of these valuations or in assisting auditors in their determination of whether the values are reasonable and well supported. The

Guide notes the following on how to create effective interaction between the professional valuer and the auditor:

For the professional valuer engaged by the auditor, there needs to be an appreciation of:

- the types of information that the auditor might request or discuss with the professional valuer,
- the factors that significantly affect whether the professional valuer's work will be adequate for the auditor's purposes, and
- the evaluations that the auditor is required to make on the professional valuer's work.

Ethics

5. Institute Comments on IESBA ED of Proposed Change to the Definition of "Engagement Team"

The Institute made a [submission](#) to IESBA on its ED of Proposed Changes to the Definition of "Engagement Team".

The Institute is supportive to the IESBA's proposal on changing the definition of "engagement team" to make it clear that internal auditors providing direct assistance to an external auditor are not considered to be part of the audit engagement team under the IESBA Code of Ethics for Professional Accountants (the "Code") and eliminate the perception that the Code and ISA 610 *Using the Work of Internal Auditors* being recently revised are in conflict.

The Institute agrees with the IESBA's analysis that individuals in the internal audit function do not meet the definition of a member of the engagement team because they are not partners or a member of the professional staff of the firm or network firm, nor are they engaged by the firm or network firm. Accordingly, the Institute supports the proposed change to the definition of "engagement team" and considers that it helps to avoid any perceived incompatibility between the Code and ISA 610 (Revised).

Moreover, the Institute understands that this amendment to the Code was proposed with the assumption that there are restrictions in place on internal auditors providing direct assistance to external auditors in ISA 610 (Revised). Such restrictions include the requirement to communicate to those charged with governance the planned use of internal auditors to provide direct assistance so as to reach a mutual understanding that such use is not excessive in the circumstances. Accordingly, the Institute would recommend the IESBA to align the effective dates of the revised Code and ISA 610 (Revised), which is effective for audits of financial statements for periods ending on or after 15 December 2013.

International Meetings

6. International Accounting Standards Board

The IASB met on 12-14 June 2012, and discussed the following topics:

- Financial instruments: classification and measurement
- IFRIC *Update*
- Review of the IFRS for SMEs
- Insurance contracts
- Investment entities
- Issues from the Interpretations Committee
- Leases
- Post-implementation review of IFRS 8 *Operating Segments*
- Work plan

Click to view the IASB Update on the meetings on **12-14 June**. The IASB next meets in July 2012.

7. IFRS Interpretations Committee

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

8. International Auditing and Assurance Standards Board

The IAASB next meets in September 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 October 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) Illustrative condensed interim financial report:
 - [Illustrative interim financial report and Disclosure checklist](#) by KPMG
- (ii) Offsetting financial instruments:
 - [Applying IFRS](#) by Ernst & Young
- (iii) IFAC tools to assist small business:
 - [Good Practice Checklist for Small Business](#) by IFAC
 - [Business advisory video series](#) by IFAC
- (iv) IFRS for SMEs training module:
 - [Training module](#) by IFRS Foundation on section 31 hyperinflation
- (v) Annual improvements 2009-2011 Cycle:
 - [Update](#) by KPMG
- (vi) IFRS Foundation annual report 2011:
 - [Annual report](#) by IFRS Foundation
- (vii) Fair value measurement:
 - [Update](#) by RSM Nelson Wheeler

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*

6 August 2012: IFRS Interpretations Committee ED of *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*

15 August 2012: IVSC ED of a Practical Guide on *The Role of the Professional Valuer in the Audit Process*

3 September 2012: IFRS Interpretations Committee ED of *Put Options Written on Non-controlling Interests*

Specialist Practices, Business Members and Advocacy

New!

11. Launch of Taxation Faculty

The Taxation Faculty, the Institute's second specialist faculty, was formally inaugurated on 5 July.

The faculty brings together under one umbrella the different tax activities and programmes run by the Institute, primarily the technical, advocacy and liaison work previously carried out by taxation committee and its various subcommittees, the seminars, networking events organized by the taxation interest group and the interest group e-newsletter, and the tax-related seminars held under the banner of the continuing professional development programme.

This rationalizes the existing structures and will enable the Institute to provide more coordinated and participatory, tax-related services to members. The faculty and its executive committee have taken over the roles of the taxation committee and the taxation interest group, which have been discontinued.

The faculty membership year will run from 1 July to 30 June of the following year. For details on joining, please click [here](#).

Professional Accountants in Business

12. International Guidance to Evaluate and Improve Internal Control in Organizations from IFAC PAIBC

The Professional Accountants in Business Committee of International Federation of Accountants ("IFAC PAIBC") has issued a new International Good Practice Guidance, [Evaluating and Improving Internal Control in Organizations](#), which highlights areas where the practical application of existing internal control standards and frameworks often fails in many organizations. The new guidance will

assist professional accountants in business as they work with their organizations to continuously evaluate and improve internal control, and ensure that it is an integrated part of the organization's systems of governance and risk management. Better integrated internal controls can save the organization time and money while helping to create and preserve value.

Corporate Finance

13. Gazettal of the SFC Guidelines of Disclosure of Inside Information

As reported in [TechWatch no. 115](#) (item 23), the [Securities and Futures \(Amendment\) Bill 2011](#), which gives statutory backing to price sensitive information disclosure requirements, was passed by the Legislative Council ("LegCo") on 25 April 2012. The Institute urged the Securities and Futures Commission ("SFC") to provide clear guidance on the application of the new law on several points of concern. Further useful interpretative 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, etc. has now been produced by the SFC to assist listed corporations/officers to comply with the requirements.

The SFC [Guidelines on Disclosure of Inside Information](#) were gazetted on 8 June. The guidelines will take effect upon implementation of the statutory disclosure regime on 1 January 2013.

14. HKEx Seminar on RQFII Exchange Traded Funds

On 19 June, Hong Kong Exchanges and Clearing Limited ("HKEx") hosted a seminar on the listing of Exchange Traded Funds ("ETFs") by Renminbi Qualified Foreign Institutional Investors ("RQFIIs"), which are allowed to invest renminbi ("RMB") raised in Hong Kong in the Mainland's securities market and offer RMB-denominated funds or other products linked to those investments.

The seminar included presentations on HKEx's RMB products and market development, the ETF market, as well as the listing, trading and clearing of RQFII ETFs. Refer to the [presentation materials](#) for details.

As at 19 June, there were 92 ETFs listed in Hong Kong. According to data from the World Federation of Exchanges, HKEx's ETF market turnover was Asia's second highest in the first five months in 2012.

Taxation

15. Alert, Circular and Notice Issued by the IRD

Members should be aware of:

- [revised DIPN 20](#), reflecting amendments to section 26A(1A) of the Inland Revenue Ordinance following the enactment of the Securities and Futures Ordinance
- newspaper notices for [business registration](#), [obligation of property owners](#), and [information to be provided by taxpayers and employers](#).

16. Materials from SAT and IRD Joint Tax Seminar

A [joint tax seminar](#) about the recent tax policy in China and updates on Hong Kong's tax treaty, was held by the State Administration of Taxation and the Hong Kong Inland Revenue Department on 11 June. Below are links to the presentation slides (available in Chinese only):

- [稅收政策及熱點問題研討](#)
- [香港稅收協定的最新發展](#)
- [香港就訂立稅務資料交換協定的最新發展及制訂法律框架的諮詢情況](#)
- [香港預約定價安排](#)

17. Tax Treaty Signed with Mexico

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

18. Filing of Return of Stock Borrowing Transactions

Borrowers under stock borrowing and lending agreements registered with Stamp Office are reminded of their obligation to file a return under section 19(13) of the Stamp Duty Ordinance. Click [here](#) for more details.

19. Recent Institute Submissions

The Institute has recently issued submissions to the Financial Services and the Treasury Bureau on two consultation documents relating to:

- [Legislative changes to facilitate the development of an Islamic bond market](#)
- [Introducing a legal framework for entering into tax information exchange agreements](#)

20. Unrealized Gains from Unsold Listed Investment Ruled not Taxable in *Nice Cheer*

In the appeal case of [Nice Cheer Investment Limited \("the taxpayer"\) v CIR](#), the Court of Appeal upheld the judgment by the Court of First Instance and ruled that the taxpayer's unrealized gain derived from the unsold listed investments is not taxable. This is because the requirement under section 14(1) of the Inland Revenue Ordinance is not satisfied. The judgment of Cheung JA, with which Hartmann JA and Fok JA agreed states: "Viewed in the statutory context it is seriously wrong that the unrealized gains disclosed in the profit and loss account which enable users to have a fuller picture of the economic performance of a company will be regarded as profits for the purpose of section 14. This approach is wrong as there is no receipt arising in or derived from the trade in respect of that investment. To tax the unrealized gains offends the principle that profit must be realized and not anticipated." It should be noted that this case may be subject to further appeal at the Court of Final Appeal.

Legislation & Other Initiatives

21. Companies Bill – Proposed Criminal Sanctions against Auditors (Clause 399): Update

Subsequent to our report of this subject in [TechWatch no. 116](#) (item 19), the Institute made [another submission](#) to the Legislative Council ("LegCo") Bills Committee and the Administration on 13 June to express its concern on clause 399 of Companies Amendment Bill, and issued a [media release](#) to explain to the public why this clause would be damaging to the profession. The Administration [responded](#) to LegCo on 15 June.

Representatives from the Institute and CPA firms of different sizes met with more than 20 legislators from different parties in a series of meetings, which was followed-up by writing an [explanatory letter](#) to each of the 60 LegCo members on 26 June, seeking their support to remove or amend clause 399. Since then, over 1,200 petition letters have been received from Institute members and students, urging the administration to remove or amend clause 399, which have been sent to the Secretary for Financial Services and the Treasury, Professor K.C. Chan.

The Institute has also set up a [linkedin](#) discussion forum for members to express views on this topic.

For further details, refer to the various alerts and other relevant documents/materials on this subject, posted on the [Clause 399](#) page of the Institute's website.

22. Registry Update

- (i) Launch of Company Search Mobile Service

The Companies Registry ("CR") has issued [Companies Registry External Circular No. 4/2012](#) to [announce](#) the launch of a new mobile service on 11 June 2012 for conducting company searches at <https://www.mobile-cr.gov.hk> (the mobile website). The CR website has also been updated as follows:

- A new subsection **Company Search Mobile Service** has been added under the "Electronic Services" section.
 - A new topic **Company Search Using Smartphones or Mobile Devices** has been added under "Frequently Asked Questions" section.
 - The following updated/new information pamphlets have been uploaded onto the "Publications and Press Releases" → "Information Pamphlets" section:
 - **How to Obtain Company Information (Updated)**
 - **Company Search Mobile Service (New)**
 - The **Major Services** subsection under "Our Services" section has been updated.
- (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 updated the e-form template and data specification of electronic Form AR1 at 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**.

23. Latest Notices on AML/CFT

Members may wish to be aware of the following notices in relation to combating money laundering/terrorist financing:

- **Financial action task force (FATF) public statement:** Draws attention of its members on the risks of transactions involving Iran, Democratic People's Republic of Korea, Bolivia, Cuba, Ecuador, Ethiopia, Ghana, Indonesia, Kenya, Myanmar, Nigeria, Pakistan, São Tomé and Príncipe, Sri Lanka, Syria, Tanzania, Thailand, Turkey, Vietnam and Yemen.

- **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.
- **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 a main board listing applicant must prepare a competent person's report for mining interests it intended to acquire or develop (**HKEx-LD32-2012**)
 - guidance letters in relation to:
 - indebtedness, liquidity, financial resources and capital structure disclosure in the listing documents (**HKEx-GL37-12**)

- the latest practicable date and the latest date for liquidity disclosure in a listing document ([HKEx-GL38-12](#))
 - [report](#) on IPO applications, delisting and suspensions (as at 29 June)
- (ii) The SFC has published:
- Issue no. 21 of [Takeovers Bulletin](#) reminds offerors and their advisers not to make statements which may mislead shareholders on the market. It also reminds all parties concerned with transactions subject to the Takeovers Code to co-operate to the fullest extent with the SFC.
 - [Annual report 2011-12](#)
- (iii) Articles on corporate governance by Deloitte:
- [Board leadership structure](#)
 - [Audit committee brief – finance and the war for talent](#)
 - [Asia Pacific economic outlook – China, Indonesia, Japan, Philippines and Vietnam](#)