



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



TechWatch

News at a glance

Issue 124 • February 2013

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.

Contents

Financial Reporting, Auditing and Ethics

New!

1. Financial Reporting Seminar: Convertible bonds – valuation issues
2. Financial Reporting and Auditing Alert – Issue 17

Financial Reporting

3. Invitation to Comment on IASB ED
4. Institute Comments on IASB ED

Audit & Assurance

5. Invitation to Comment on IAASB Consultation Paper

International Meetings

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

Useful Resources

10. Publications

Comment Due Dates

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

11. IFAC PAIBC Publication on Principles for Effective Business Reporting Processes and ED on Investment Appraisal
12. Stock Exchange Review of Listed Issuers' Financial Reports

Corporate Finance

13. Hong Kong IPO Guide 2013

Taxation

14. Tax Treaty Signed with Italy
15. Announcements by the IRD
16. List of Qualifying Debt Instruments

Legislation & Other Initiatives

17. Companies Registry Update
18. Latest Notices on AML/CFT

Useful Resources

19. Library Resources
20. Other Publications

Financial Reporting, Auditing and Ethics by:
Simon Riley (Editor), Ben Lo, Katherine Leung

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

TechWatch is prepared by the Hong Kong Institute of CPAs and is intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Institute endeavours to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted by the Institute.

Financial Reporting, Auditing and Ethics

New!

1. Financial Reporting Seminar: Convertible bonds – valuation issues

The Institute will hold a seminar on the convertible bond valuation issues in financial reporting on 26 February 2013. The seminar will discuss the following major topics:

- Introduction to convertible bonds – hybrid characteristics, advantages and risks
- Interaction between accounting treatment and valuation methodology – different approaches under HKAS 32 *Financial Instruments: Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*
- Convertible bond valuation – valuation models, determination of valuation parameters, special terms and clauses
- Case studies

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

2. Financial Reporting and Auditing Alert – Issue 17

The Institute issued [Financial Reporting and Auditing Alert – Issue 17](#) on audits of group financial statements – HKSA 600 (Clarified).

HKSA 600 (Clarified) *Special Considerations – Audits of Group Financial Statements (including the Work of Component Audits)*, became effective for audits of financial statements for periods beginning on or after 15 December 2009. The clarified HKSA 600 (Clarified) was issued as part of the exercise to clarify standards. It was one of the few that changed quite significantly and contained a number of specific requirements that must be complied with by the group auditor. When HKSA 600 (Clarified) was first introduced, there

were concerns over the practicability of some of these requirements, in particular those concerning involvement in the work of component auditors. Over almost two years of application, these concerns appeared to have eased off gradually as practices begin to understand their respective roles in ensuring compliance with HKSA 600 (Clarified). This alert reminded members of the key requirements of HKSA 600 (Clarified) and set out some of the more common issues identified in practice reviews concerning the application of HKSA 600 (Clarified) as follows:

- Restrictions on involvement of the group auditor in the work of component auditors
- Lack of understanding of the component auditors and evaluation of their work
- Group audit planning, communication with component auditors and documentation.

Financial Reporting

3. Invitation to Comment on IASB ED

The Institute has issued an [Invitation to Comment](#) on IASB ED of *Recoverable Amount Disclosures for Non-financial Assets (Proposed Amendments to IAS 36)*, with comments requested by **19 February 2013**.

As stated in the IASB's press release, accompanying the ED, the proposals set out modifications to the disclosures in IAS 36 *Impairment of Assets* for the measurement of the recoverable amount of impaired assets. Those disclosure requirements were introduced by IFRS 13 *Fair Value Measurement*, issued in May 2011.

When developing IFRS 13, the IASB decided to amend IAS 36 to require the disclosure of information about the recoverable amount of impaired assets, particularly if that amount is based on fair value less costs of disposal. However, it has come to the IASB's attention that some of the amendments made to IAS 36 have resulted in the requirement being more broadly applicable than the IASB intended. This ED proposes amendments to IAS 36 that would

better represent the IASB's intention for those disclosure requirements.

4. Institute Comments on IASB ED

The Institute made a **submission** to the IASB on IFRS 9 Chapter 6 Hedge Accounting Review Draft. The Institute expressed significant concern on a specific proposed amendment in Appendix B Application Guidance Para B6.5.5, which provided guidance on measuring hedge ineffectiveness using hypothetical derivatives. The Institute considered that not all of the required due process steps had been followed by the IASB as the particular paragraph did not feature in the ED.

Paragraph B6.5.5 of the hedge accounting review draft incorporated a proposal that a hypothetical derivative, used to measure hedge effectiveness, did not include features in the value of the hedged item that only exist in the hedging instrument (but not the hedged item), to which the Institute agreed. However, the paragraph went on to imply that a hypothetical derivative cannot impute a charge for exchanging different currencies (often referred to as 'currency basis') even though actual derivatives might include such a charge. This implied that currency basis is not a component of the hedged item.

The Institute believed that the resulting accounting, which required ineffectiveness to be recognized (with the resultant volatility in profit or loss), did not reflect the economics of the arrangement. Thus, the Institute hoped the IASB could address the above concern prior to the final standard being released.

Audit & Assurance

5. Invitation to Comment on IAASB Consultation Paper

The Institute has issued an **Invitation to Comment** on IFAC's IAASB Consultation Paper, *A Framework for Audit Quality* ("the Framework"), with comments requested by **15 April 2013**.

Through the proposed Framework, the IAASB aims to raise awareness of the key elements of audit quality, encourage stakeholders to explore ways to improve audit quality, and facilitate greater dialogue between key stakeholders on the topic.

The proposed Framework describes the input and output factors that contribute to audit quality at the engagement, audit firm, and national levels. It also demonstrates the importance of appropriate interactions among stakeholders and the relevance of various contextual factors.

The IAASB is seeking responses to several questions set out in the Consultation Paper, in particular, whether the Framework is clear, comprehensive, and useful. In developing the Framework, the IAASB has also identified, with the input of stakeholders, a number of areas for consideration by both auditors and other participants in the financial reporting supply chain that may benefit audit quality on a global basis.

International Meetings

6. International Accounting Standards Board

The IASB met on 29-31 January 2013, and discussed the following topics:

- Insurance Contracts
- Rate-regulated Activities
- Leases
- Revenue Recognition
- Financial Instruments: Hedge Accounting
- Matters arising from the IFRS Interpretations Committee
- Integrated Reporting
- Conceptual Framework
- Post-implementation review of IFRS 8 *Operating Segments*

Click to view the IASB Update on the meeting of [29-31 January](#). The IASB next meets in February 2013.

7. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 22-23 January 2013, and discussed the following topics:

- IAS 1 *Presentation of Financial Statements* – Disclosure requirements about assessment of going concern
- IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IFRIC 12 *Service Concession Arrangements* – Variable payments for the separate acquisition of PPE and intangible assets
- IAS 32 *Financial Instruments: Presentation* – Put options written on non-controlling interests
- IAS 37 *Provisions, Contingent liabilities and Contingent Assets* – Interpretation on Levies
- Interpretations Committee agenda decisions
- Interpretations Committee tentative agenda decisions
- Issues considered for Annual Improvements
- Issues recommended for narrow scope amendment
- Interpretations Committee work in progress

Click to view the IFRIC Update on the meeting of [22-23 January](#). The IFRS Interpretations Committee next meets in March 2013.

8. International Auditing and Assurance Standards Board

The IAASB next meets in February 2013. Click [here](#) for details and previous meeting summary.

9. International Ethics Standards Board for Accountants

The IESBA next meets in March 2013. Click [here](#) for details and previous meeting summary.

Useful Resources

10. Publications

The following are recent publications on various topics:

- (i) [Educational material on fair value measurement](#) by IFRS Foundation
- (ii) Consolidation relief for investment entities:
 - [IFRS in Focus](#) by Deloitte
 - [IFRS Developments](#) by Ernst & Young
 - [Financial Reporting Update, First Impressions](#) and [In the Headlines](#) by KPMG
 - [HKFRS News](#) by PwC
- (iii) [New IFRS for SMEs training module: Consolidated and Separate Financial Statements](#) by IFRS Foundation
- (iv) [Practical guide – Application of IAS 19 \(2011\) Employee Benefits](#) by PwC
- (v) [Update on offsetting of financial assets and financial liabilities](#) by RSM Nelson Wheeler
- (vi) [Report](#) by International Forum of Accounting Standard Setters
- (vii) [Publication on consolidation for fund managers](#) by Ernst & Young
- (viii) [IFRS Practice Issues on transition to the new consolidation suite of standards](#) by KPMG

Comment Due Dates

15 February 2013: IFAC's IAASB ED ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and The Auditor's Report Thereon*

19 February 2013: ED HKSAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

19 February 2013: IASB ED of *Recoverable Amount Disclosures for Non-financial Assets (Proposed Amendments to IAS 36)*

22 February 2013: IASB ED *Equity Method: Share of Other Net Asset Changes*

28 February 2013: IASB ED of *Classification and Measurement: Limited Amendments to IFRS 9*

1 March 2013: IASB ED *Clarification of Acceptable Methods of Depreciation and Amortization (Proposed Amendments to IAS 16 and IAS 38)*

18 March 2013: IASB ED of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed Amendments to IFRS 10 and IAS 28)*

18 March 2013: IASB ED of *Acquisition of an Interest in a Joint Operation (Proposed Amendment to IFRS 11)*

15 April 2013: IFAC's IAASB Consultation Paper *A Framework for Audit Quality*

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

11. IFAC PAIBC Publication on Principles for Effective Business Reporting Processes and ED on Investment Appraisal

The Professional Accountants in Business Committee of International Federation of Accountants ("IFAC PAIBC") has released the guidance, **Principles for Effective Business Reporting Processes**, which aims to help organizations enhance their reporting processes and discusses the key issues PAIBs need to address when implementing effective reporting processes in their organization. At the heart of the new guidance are 11 key principles for evaluating and improving business reporting processes, complemented by practical guidance outlining the critical arrangements that need to be in place for effective business reporting.

This guidance was written for all organizations, regardless of their size or structure, private or public, to address the need for effective reporting processes to produce high-quality reports.

Members are reminded that the deadline for commenting on the exposure draft of an IFAC PAIBC proposed International Good Practice Guidance, **Project and Investment Appraisal for Sustainable Value Creation** (as reported in **TechWatch issue no. 122, Dec. 2012**), is **28 February**. Alternatively, members can submit comments to the Institute at < commentletters@hkicpa.org.hk > by **19 February 2013**.

12. Stock Exchange Review of Listed Issuers' Financial Reports

The Stock Exchange has published a report summarizing key observations and findings from its review of 120 periodic financial reports released by listed issuers between May 2011 and September 2012.

Click to view the [press release](#) and [full report](#).

Corporate Finance

13. Hong Kong IPO Guide 2013

[Hong Kong IPO Guide 2013](#), published by LexisNexis and supported by the Institute and other organizations, aims to help companies interested to get a listing in Hong Kong understand what needs to be done at each stage and how to gain control of the listing process.

Taxation

14. Tax Treaty Signed with Italy

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

15. Announcements by the IRD

- (i) A [press release](#) highlights how a company director was sentenced to nine months' imprisonment and fined a total of HK\$900,000 for tax evasion.
- (ii) As the "Tax Return - Individuals" (BIR60) will be issued in bulk on 2 May 2013, taxpayers are reminded to notify the Inland Revenue Department ("IRD") by 8 March of any change of addresses. [Click](#) to see the IRD's notice.

16. List of Qualifying Debt Instruments

The IRD has issued a [list of qualifying debt instruments](#) as at 31 December 2012.

Legislation & Other Initiatives

17. Companies Registry Update

- (i) Annual statistics for 2012

The Companies Registry ("CR") released annual statistics for 2012 on 13 January 2013. Refer to the relevant [press release](#) and the [statistics section](#) of the CR website for details.

- (ii) First batch of subsidiary legislation under the new Companies Ordinance gazetted

The following five pieces of subsidiary legislation for the implementation of the new Companies Ordinance were gazetted on 1 February and tabled in Legislative Council on 6 February for negative vetting:

- [Companies \(Words and Expressions in Company Names\) Order](#)
- [Companies \(Disclosure of Company Name and Liability Status\) Regulation](#)
- [Companies \(Accounting Standards \(Prescribed Body\)\) Regulation](#)
- [Companies \(Directors' Report\) Regulation](#)
- [Companies \(Summary Financial Reports\) Regulation](#)

Refer to the relevant [press release](#) for details.

- (iii) Report correct addresses in specified forms filed with the CR

CR has issued [External Circular No. 1 / 2013](#) to remind companies and their officers of the statutory requirement of reporting correct addresses in specified forms which are filed with the CR. However, the CR has also issued [a letter](#) to remind registry users that, where clerical errors are made in reporting information to the CR, amended documents should be filed and not, e.g., notifications of changes in particulars.

18. Latest Notices on AML/CFT

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

- [Government notice 8258](#): An updated list of terrorists and terrorist associates specified under the United Nations (anti-terrorism measures) Ordinance.

- **Government notice 8259**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) 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 **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

19. 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.

20. Other Publications

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

(i) HKEx has published:

- **HKEx's Group Strategic Plan 2013-2015** and HKEx chief executive's **presentation** and **elaboration** of the strategic plan
- Listing decisions in relation to:
 - clarification on requirements for land use title of properties situated in the mainland (**LD4-2**, updated in Jan 2013)
 - whether a listing applicant's sponsor/underwriter could apply for

shares in a listing applicant's initial public offering (**LD12-3**, updated in Jan 2013)

- whether a company had a portfolio of natural resources that was meaningful and of sufficient substance to justify a listing (**HKEx-LD39-2013**, **HKEx-LD41-2013**)
- whether HKEx would waive the requirements to produce competent person's reports ("CPR") and valuation reports ("VR") under certain circumstances (**HKEx-LD-40-2013**, **HKEx-LD42-2013**), or grant a waiver such that publication of CPR, VR and other disclosures could be deferred (**HKEx-LD45-2013**)
- whether a company had a clear path to commercial production (**HKEx-LD43-2013**)
- whether a company had the right to participate actively in the exploration for and/or extraction of natural resources (**HKEx-LD44-2013**)
- persons who qualified to act as a listed company's secretary (**HKEx-LD46-2013**, **HKEx-LD47-2013**)
- guidance on why HKEx returned certain listing applications (**HKEx-LD48-2013**)
- whether disclosure of net present values attributable to Proved Reserves, Proved plus Probable Reserves, Proved plus Probable plus Possible Reserves and Contingent Resources both on a pre-tax and post-tax basis is acceptable; and whether HKEx would grant a waiver so as to allow a listing applicant disclose estimated values of Possible Reserves, Contingent Resources and Petroleum-Initially-In-Place (**HKEx-LD49-2013**)

- Withdrawal of a listing decision in relation to payment of special dividend prior to listing (**LD14-3**, superseded by **GL15-09**)
 - Guidance letters in relation to:
 - payment of special dividend based on a new applicant's estimated distributable profits for a period up to the day immediately before listing (**HKEx-GL15-09**, updated in Jan 2013)
 - continuing obligations under Chapter 18 (**HKEx-GL47-13**)
 - disclosure in IPO listing documents on industry overview (**HKEx-GL48-13**), history and development (**HKEx-GL49-13**) and business (**HKEx-GL50-13**) sections
 - **Report** on IPO applications, delisting and suspensions (as at 31 January)
 - **Market statistics for 2012**
- (ii) SFC has published:
- Research Paper No. 52: **A review of the global and local securities markets in 2012**
 - Revised **Licensing Information Booklet** to bring the content into line with the current licensing regime and the practices that the SFC adopts in relation to the licensing or registration of intermediaries under the Securities and Futures Ordinance
 - **Speech** by the SFC deputy chief executive officer on "A New Frontier for RMB Investment Products and Asset Management Business" (23 January)
- (iii) Articles on corporate governance by Deloitte:
- **Directors' alert 2013 – lead or be led: time to take advantage of the new business reality**
 - **Audit committee brief – evaluating the external auditor**
 - **Elevating board effectiveness: monitoring corporate performance**
 - **Audit committee resource guide**
 - **Global economic outlook – 1st quarter 2013**
- (iv) **2012 board practices report – providing insight into the shape of things to come** by Deloitte and the Society of Corporate Secretaries & Governance Professionals
- (v) **Tone at the top – eight priorities for 2013** by the Institute of Internal Auditors