



# 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@hkcipa.org.hk](mailto:commentletters@hkcipa.org.hk) >. Click [here](#) for past issues.

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## Financial Reporting, Auditing and Ethics

**New!**

### 1. Institute appointed to the IFRS Accounting Standards Advisory Forum

The IFRS Foundation announced the inaugural membership of the Accounting Standards Advisory Forum with the Institute being selected as one of the 12 members, coming from the global accounting standard-setting community. The Institute will serve to represent the Asian-Oceanian Standard Setters Group, bringing directly to the IASB views not only from Hong Kong but from the wider region. The appointment to the forum, which aims to provide technical advice to the IASB, is a significant recognition of the Institute's standing in international accounting standards setting. The first meeting will be held in London on 8-9 April 2013.

Click [here](#) to see the press release and forum's membership.

### 2. New Seminars and Forums from April to June

The Institute will run a series of technical update evenings ("TUE"), seminars, courses and workshops for accounting and auditing from April to June 2013 as follows:

- [Financial Reporting Seminar on Business Valuation](#)
- [Financial Reporting Seminar on Convertible bonds – valuation issues](#)
- [Refresher Course on Current Financial Reporting Standards](#)
- [TUE – Common application issues on HKFRS](#)
- [TUE – New standards on consolidation, joint ventures and disclosures \(with update on transition guidance and investment entities\)](#)

- [TUE – Getting familiar with internal controls](#)
- [Training for Audit Staff](#)
- [Training for Audit Manager](#)
- [Workshop on HKAS 36 Impairment of Assets](#)
- [Audit Practice Manual Application workshop](#)

Information on each course, including registration details, can be found by clicking on the above event titles.

### Members' Handbook

### 3. Handbook Update No. 125

**Update No. 125** includes

- i) revised PN 620.2 *Communication between the Auditor and the Insurance Authority* to align with the clarified HKSAs and current drafting conventions for PNs; and
- ii) PN 750 *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal* to provide guidance to practitioners as to their responsibilities when they are engaged to review the financial information included in a circular issued in relation to a very substantial disposal ("VSD") under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This PN is effective for reviews of financial information included in a VSD circular dated on or after 1 June 2013. Earlier adoption of the PN is permissible.

### Financial Reporting

### 4. Invitation to Comment on IASB ED

The Institute has issued an [Invitation to Comment](#) on IASB Exposure Draft ("ED") of *Financial Instruments: Expected Credit Losses*, with comments requested by **11 June 2013**.

As stated in the IASB's press release, accompanying the ED, the proposals build upon previous work to develop a more forward-looking provisioning model, which recognizes expected credit losses on a more timely basis.

Financial reporting requirements both internationally and in the US currently use an incurred loss model to determine when impairment is recognized on financial instruments. The incurred loss model requires that a loss event occurs before a provision can be made and was introduced to avoid the use of so-called 'big bath' general provisions that distorted the accurate reporting of financial performance to investors. However, during the financial crisis the incurred loss model was criticized for delaying the recognition of losses and for not reflecting accurately credit losses that were expected to occur.

Consistent with requests from the G20, the Financial Crisis Advisory Group and others, the IASB and the US Financial Accounting Standards Board ("FASB") have been working jointly to develop a more forward-looking impairment model that reflects expected credit losses. The proposals build upon the expected credit loss model previously agreed between the IASB and the FASB, but it has been simplified to reflect feedback received from interested parties. The FASB has published separately for public comment an alternative expected credit loss model and the two sets of proposals have overlapping comment periods.

The IASB model is designed to recognize credit losses on a more timely basis. Expected credit losses are recognized on all financial instruments within the scope of the proposals from when they are originated or purchased.

Full lifetime expected credit losses are recognized when a financial instrument deteriorates significantly in credit quality. This is a significantly lower threshold than under the incurred loss model today which in practice has resulted in provisioning only when financial assets are close to default.

## Audit & Assurance

### 5. Institute Comments on IAASB ED

The Institute made a [submission](#) to the IAASB on its ED on ISA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*.

The Institute was concerned with the proposed expansion of the auditor's responsibilities in respect of other information, embedded within the audit of financial statements, in order to meet the perceived expectations of users. This would widen the expectation gap. Under the revised ISA 720 there would be more than extant "assurance" due to the increased responsibilities and proposed statement to be included in the auditor's report. It was considered that the proposed nature and scope of work surrounding other information was ill-defined. The Institute was concerned that the proposals in ED/ISA 720 were not entirely an appropriate response to issues that users of financial statements had expressed in related to other information. Furthermore, the Institute recommended the IAASB to reconsider the proposals in ISA 720 and to undertake a separate project of studying whether a separate assurance engagement on other information would serve the needs of the market.

### 6. Online survey on IAASB Consultation Paper "A Framework for Audit Quality"

In January 2013, the IAASB issued a Consultation Paper ("CP") "A Framework for Audit Quality". The Institute had issued an [Invitation to Comment](#) on IAASB's CP, 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. Given the importance of the CP and to encourage input from stakeholders in Hong Kong who have an interest in continually enhancing audit quality (including regulators, preparers, audit committees, investors, and audit firms), the Institute has posted an online

survey for completion by interested commentators.

Click [here](#) to access the online survey.

## International Meetings

### 7. International Accounting Standards Board

The IASB met on 19-21 March 2013, and discussed the following topics:

- Agriculture: Bearer Biological Assets
- IFRS for SMEs: Comprehensive Review 2012-2014
- Conceptual Framework
- Fair Value Measurement
- IAS 19 *Employee Benefits*
- Annual Improvements 2010-2012
- Proposed narrow-focus amendment to IAS 1 *Presentation of Financial Statements*
- Revenue Recognition
- Put options written on non-controlling-interests

Click to view the IASB Update on the meeting of [19-21 March](#). The IASB next meets in April 2013.

### 8. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 12-13 March 2013, and discussed the following topics:

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, IFRIC 12 *Service Concession Arrangements – Variable payments for the separate acquisition of property, plant and equipment and intangible assets*

- 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 a narrow-scope amendment
- Interpretations Committee work in progress

Click to view the IFRIC Update on the meeting of [12-13 March](#). The IFRS Interpretations Committee next meets in May 2013.

### 9. International Auditing and Assurance Standards Board

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

### 10. International Ethics Standards Board for Accountants

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

## Useful Resources

### 11. Publications

The following are publications on various topics:

- (i) [Update](#) on effective dates of new and revised standards by RSM Nelson Wheeler
- (ii) [Article](#) on ten misconception about IFRSs by Philippe Danjou, IASB board member
- (iii) [Update](#) on applying IFRS 13 *Fair Value Measurement* for financial instruments by Deloitte
- (iv) [Practical guide](#) on joint arrangements for telecommunication industry by PwC
- (v) [Communiqué](#) on global convergence by G20 (shown in paragraph 19)

## Comment Due Dates

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

**11 June 2013:** IASB ED of *Financial Instruments: Expected Credit Losses*

## Specialist Practices, Business Members and Advocacy

### Professional Accountants in Business

#### 12. Results of Stock Exchange Review of Disclosure in Issuers' Annual Reports

On 22 March, Hong Kong Exchanges and Clearing ("HKEx") published its first [report](#) on the findings and recommendations from a review of all listed issuers' annual reports (excluding collective investment schemes listed under Main Board Chapter 20) issued for financial year ended between December 2011 and November 2012.

Click to view the [press release](#) and a [letter](#) to issuers and market practitioners.

### Corporate Finance

#### 13. HKEx Publishes Consultation Conclusions on Trading Halts

On 15 March, HKEx published [consultation conclusions on trading halts](#). Frequently asked questions relating to trading halts are set out in the HKEx [press release](#). The consultation found a majority of respondents supported the proposal to allow a listed issuer's inside (price sensitive) information announcement to be released during trading hours subject to a short trading halt in the issuer's shares.

[TechWatch no. 119](#) (item 11) and [no. 120](#) (item 11) contain further details about the consultation and the Institute's submission, respectively.

Implementation of the trading halts proposal will not be earlier than mid-2014, to provide sufficient lead time for the market to prepare, as implementation will involve significant changes to market participants' systems and operations.

#### 14. SFC to Enhance the Regulatory Regime for Electronic Trading

On 22 March, the Securities and Futures Commission ("SFC") released **consultation conclusions** on proposals to enhance the regulatory framework for electronic trading. The proposals, generally supported by respondents, provide clarity to intermediaries on the standards that they are expected to meet when they conduct electronic trading.

Key aspects of the regulatory regime include:

- Management and supervision – the responsibility to ensure compliance rests with the responsible officers or executive officers and the management of the intermediaries.
- Adequacy of system – electronic trading systems should be subject to testing and meet regulatory standards with respect to reliability, controls, security and capacity; contingency measures should be put in place.
- Record keeping – proper records on the design, development, deployment and operation of electronic trading systems should be kept.
- Risk management – risk management and supervisory controls to monitor orders and trades should be put in place.

The new regime, which includes amendments to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and the Fund Manager Code of Conduct, will come into effect on 1 January 2014. The Guidance Note on Internet Regulation issued in March 1999 will be repealed on the same date.

#### 15. SFC to Enhance the Regulation of Non-Corporate Listed Entities

On 27 March, the SFC published **consultation conclusions** on proposals to enhance the regulatory regime for non-corporate entities that are listed on the Stock Exchange of Hong Kong. Given the general support of respondents, the

SFC will proceed with the proposals and make appropriate recommendations on the legislative amendments to the government. The changes will help enhance investor protection and market transparency for all listed entities, whether they be companies or other types of business organization.

The main points of the conclusions are:

- Extend the SFC's supervision and investigation powers, the requirement to disclose price sensitive information, the market misconduct provisions and the disclosure of interests provisions under respective parts of the Securities and Futures Ordinance, to expressly cover non-corporate listed entities.
- Clarify that, for listed depositary receipts, the overseas issuer whose shares/units are the underlying shares/units is the "issuer".
- Exclude entities whose only listed securities are debentures from the disclosure of interests regime.

### Taxation

#### 16. Announcements by the IRD

Members should be aware of:

- **A notice** issued on matters under the Business Registration Ordinance.
- Second instalment of tax deadline in April. Click [here](#) for further information.
- Block extension scheme for lodgment of 2012/13 tax returns. Click to see [a circular](#) for details.
- **Tax representatives' corner**.
- New or revised forms concerning application for certification of resident status on or after 1 April 2013. Click [here](#) for further information.
- **Enhanced service** relating to electronics filing of Employer's Return.

- Press releases regarding [tax returns 2012-13](#) issued by the IRD, and the gazettal of the [Stamp Duty \(Amendment\) Bill 2013](#), to implement the measures to increase stamp duty on property and advance the time at which stamp duty on non-residential property becomes payable.
- [A new arrangement](#) about request for a notice of no objection to a company being deregistered.

### Legislation & Other Initiatives

#### 17. Institute Submits Further Views on Restricting Public Access to Directors' Particulars

In responding to the first phase consultation on the draft Companies Bill in 2010, the Institute did not see any pressing need to change the status quo in relation to the disclosure of directors' particulars.

While the Institute understands the rationale for the subsequent proposals to not include directors' full personal identification ("ID") numbers and residential addresses on the public register, the details of which it is proposed to implement through subsidiary legislation, the proposed regulation would, in practice, hinder the efforts of Certified Public Accountants ("CPAs") to access data that some rely on for confirmation and verification of information relating to audits. It could also impede other fraud investigation and due diligence work which CPAs may be engaged to undertake.

Representatives of the Institute, therefore, requested a meeting with the Administration to explain the concerns, following which the Institute issued a [submission](#) to the Registrar of Companies to request that, if the proposal proceeded in its current form, CPAs, as defined under the Professional Accountants Ordinance (Cap.50), be included amongst the specified types of persons who may be granted access to withheld or protected information (i.e., directors' full ID numbers and residential addresses), when they are carrying out professional work.

#### 18. Companies Registry Update

The Companies Registry ("CR") has implemented the Third Party Software Interface ("TPSI") e-form submission testing arrangement, to facilitate third party software developers and in-house IT professionals to perform testing on submission of e-forms generated by API or XML in the CR testing environment through the CR's TPSI testing support. The testing arrangement aims to enable software developers to test if the e-forms generated from their applications align with the CR's TPSI specifications.

Refer to the [Third Party Software Interface Testing Environment](#) section of the CR website for further details.

#### 19. 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 932](#): An updated list of terrorists and terrorist associates specified under the United Nations (anti-terrorism measures) Ordinance.
- [Government notice 933](#): An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- [Legal notice 31](#): The United Nations Sanctions (Democratic Republic of the Congo) Regulation 2013 was made under the United Nations Sanctions Ordinance.
- [Legal notices 32 & 33](#): The United Nations Sanctions (Liberia) Regulation 2013 and the United Nations Sanctions (Liberia) Regulation 2012 (Repeal) Regulation were made under the United Nations Sanctions Ordinance.
- [National money laundering and terrorist financing risk assessment](#): The Financial Action Task Force has developed guidance which will assist countries in the conduct of money laundering and terrorist financing risk assessment at the national level.

- **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

### 20. 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.

### 21. Other Publications

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

(i) HKEx has published:

- a new series of **frequently asked questions** on corporate governance code and associated listing rules
- Listing decisions in relation to:
  - whether a company listed on a Mainland stock exchange which proposed to convert its entire B Shares into H Shares and sought a listing of the H Shares on the main board of the Stock Exchange by way of introduction would be acceptable and whether its requested waivers from strict compliance with certain requirements under the listing rules would be granted ([HKEx-LD52-2013](#))

- whether the directors and senior management of a listing applicant, taken together, would be considered to have “*sufficient experience relevant to exploration and/ or extraction activity*” under rule 18.04 ([HKEx-LD53-2013](#))
- whether the Stock Exchange would approve the proposed changes to the terms of convertible bonds issued by a listed issuer under a general mandate ([HKEx-LD54-2013](#))
- whether a listed issuer would be required to classify as a transaction its subscription for convertible notes issued by another independent listed issuer, as if the notes were fully converted at the time of entering into the subscription agreement ([HKEx-LD55-2013](#))
- whether the Stock Exchange would grant listing approval for new shares to be issued upon conversion of the convertible notes that could result in a listed issuer’s public float falling below the minimum 25% requirement under the listing rules ([HKEx-LD56-2013](#))

- A guidance letter in relation to disclosure in listing documents for new applicant mineral companies that the Stock Exchange normally expects and to address comments raised by the Stock Exchange and the SFC in the vetting of previous listing applications ([HKEx-GL52-13](#))
- **Announcement** of Stock Options Revamp with effect from 2 May:
  - **Stock Options Revamp Fact Sheet** (20 March 2013)
  - **Opening remarks** and **presentation** at a media briefing

- **Report** on IPO applications, delisting and suspensions (as at 28 March)
- **HKEx Fact Book 2012** which presents a review of the securities and derivatives markets in 2012, including market indices' movements, trading statistics and analysis, corporate actions of listed companies, fund-raising figures, etc.

(ii) SFC has published:

- **Report of the Survey on Hedge Fund Activities of SFC-licensed Managers/Advisers**, which shows continued growth in hedge fund assets in Hong Kong. Major findings are summarized in the **press release**.
- **Issue no. 24 of Takeovers Bulletin**, which highlights Takeovers and Mergers Panel's ruling on an obligation under the Takeovers Code to make a chain principle offer, and appointments and reappointments to the Takeovers Panel and related committees with effect from 1 April.

(iii) Articles on corporate governance by Deloitte:

- **Developing an effective governance operating model – a guide for financial services boards and management teams**
- **CFO insights – investor relations: what new CFOs should know**
- **Women in the boardroom – a global perspective**
- **Integrity in the boardroom: what does it really mean?**
- **Deloitte review – finding the value in environmental, social, and governance performance**
- **Asia Pacific economic outlook – China, India, Myanmar, and Philippines**