



TechWatch

News at a glance

Issue 130 • August 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.

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Financial Reporting, Auditing and Ethics

New!

1. New Technical Learning and Support Programme for August to November

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

- **TUE – Application of HKFRS 2 Share-based Payments**
- **TUE – Common application issues on HKFRS**
- **TUE – An Overview of Hedge Accounting under HKAS 39**
- **TUE – Code of Ethics for Professional Accountants**
- **TUE Series on Accounting for Financial Instruments**
- **Workshops for Audit Manager/Audit Staff**
- **Audit Practice Manual Application Workshop**
- **ICAC Workshop on Ethical Decision Making**
- **Workshops for Group Accounting**
- **HKFRS for Private Entities Workshops**
- **Workshop on Quality Control**
- **Financial Reporting Forum – Developments in proposed IFRS on Insurance Contracts and Leases**
- **Financial Reporting Seminar – Valuation of intangibles**

- **Internal Control Systems and Corporate Governance Compliance for Hong Kong Listed Companies**
- **Quality Assurance Forum – Practice review**

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

Click [here](#) for an indicative list of topics to be included in the technical learning and support programme from July 2013 to June 2014.

Members' Handbook

2. Handbook Update No. 131

Update No. 131 contains *Novation of Derivatives and Continuation of Hedge Accounting (Amendments to HKAS 39 Financial Instruments: Recognition and Measurement)*.

The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.

Similar relief will be included in HKFRS 9 *Financial Instruments*.

Financial Reporting

3. HKICPA Financial Reporting Standards Committee

The **FRSC minutes** of the meeting held on 5 March 2013 covered the following items:

- Work plan for 2013 – status report
- Update on IFRS Regional Policy Forum 2013 in Hong Kong
- IFRS Practice Statement Management Commentary
- Draft submissions on IASB Exposure Drafts
- IASB Accounting Standards Advisory Forum
- IVSC Consultation Papers

4. Invitation to Comment on IASB DP

The Institute has issued an **Invitation to Comment** on IASB Discussion Paper ("DP") of *Conceptual Framework*, with comments requested by **16 December 2013**.

As stated in the IASB's press release, accompanying the DP, the existing *Conceptual Framework* has enabled the IASB to develop high quality IFRS that have improved financial reporting. However, it does not cover some important areas and some guidance needs updating.

In 2011, the IASB carried out an extensive public consultation to assist in identifying priorities for its agenda. Most respondents to that consultation identified work on the *Conceptual Framework* as a high priority.

This DP is designed to obtain initial views and comments on important issues that the IASB will consider as it develops an Exposure Draft ("ED") of a revised *Conceptual Framework*. The issues include:

- definitions of assets and liabilities;
- recognition and derecognition;

- the distinction between equity and liabilities;
- measurement;
- presentation and disclosure; and
- other comprehensive income.

5. Institute Comments on IASB EDs

- (i) IASB ED of *Financial Instruments: Expected Credit Losses*

The Institute sent a **comment letter** to the IASB on its ED of *Financial Instruments: Expected Credit Losses*.

While the Institute had not previously supported the expected credit loss model due to practical and operational concerns over the implementation, the Institute recognized that an expected credit loss methodology was a theoretically appropriate approach to impairment and the proposed model was seeking to make that approach operational.

However, the Institute expressed concerns that the approaches to meet the objective taken by the IASB and by the US Financial Accounting Standards Board were quite different and considered the convergence in guidance on expected credit losses by the boards was critical to supporting well-functioning global capital markets.

- (ii) IASB ED of *Defined Benefit Plans: Employee Contributions*

The Institute sent a **comment letter** to the IASB on its ED of *Defined Benefit Plans: Employee Contributions*.

The Institute agreed with the IASB's proposals on the basis that they clarified the existing requirements in IAS 19 (2011) *Employee Benefits* on accounting for contributions from employees or third parties and existing inconsistency in relation to the attribution of these contributions which would reduce potential divergence in practice and provide pragmatic solution to preparers.

Audit & Assurance

6. HKICPA Auditing and Assurance Standards Committee

The **AASC minutes** of the meeting held on 25 June 2013 covered the following items:

- Work Plan Status Report and Update from Working Groups
- Revised PN 850 *Reporting on Flag Days and General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department*
- Annual Auditing Update Conference 2013
- IAASB Meeting

7. Invitations to Comment on Consultation Documents

- (i) ED Revised Practice Note ("PN") 860.1 *The Audit of Retirement Schemes*

The Institute has issued an **Invitation to Comment** on ED Revised PN 860.1 *The Audit of Retirement Schemes*, with comments requested by **23 September 2013**.

PN 860.1 would be updated to align with pronouncements such as the clarified Hong Kong Standards on Auditing, Hong Kong Standard on Assurance Engagements 3000 and the current drafting conventions. Other key changes include:

- Alignment with wording set out in the ORSO and MPFSO
- Updated Examples 1 to 8 in Appendix 1
- Included Examples 9 and 10 for Approved Pooled Investment Funds in Appendix 1
- Included Example Form A for ORSO in Appendix 2

- (ii) IAASB ED *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing ("ISAs")*

The Institute has issued an **Invitation to Comment** on IAASB ED *Reporting on Audited Financial Statements: Proposed New and Revised ISAs*, with comments requested by **29 October 2013**.

This ED seeks views from stakeholders in relation to the IAASB's proposals to enhance auditor reporting globally. This ED includes proposed new ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, and a number of proposed revised ISAs, including revisions to ISA 700 *Forming an Opinion and Reporting on Financial Statements*.

The proposed new ISA 701 directs auditors of financial statements of listed entities to communicate in their report those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements. The intended outcome of the proposal is more informative audit reports, with information about the audit of the financial statements that is unique and more specific to the entity that has been audited.

International Meetings

8. International Accounting Standards Board

The IASB met on 23-25 July 2013, and discussed the following topics:

- Comprehensive review of the *IFRS for SMEs*
- Revenue Recognition
- Financial Instruments: Classification and Measurement
- Financial Instruments: Impairment
- Rate-regulated Activities

- Post-implementation Reviews
- Accounting for Macro Hedging
- Annual Improvements to IFRS 2010-2012 Cycle
- IAS 16 *Property, Plant and Equipment* / IAS 38 *Intangible Assets*: Variable payments for the separate acquisition of PPE and intangible assets
- IAS 28 *Investments in Associates and Joint Ventures*: Elimination of gains arising from downstream transactions
- Disclosure Requirements about Assessment of Going Concern

Click to view the IASB Update on the meeting of **23-25 July**. The IASB next meets in September 2013.

9. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 16-17 July 2013, and discussed the following topics:

- IAS 19 *Employee Benefits* – Employee benefit plans with a guaranteed return on contributions or notional contributions
- Interpretations Committee agenda decisions
- Interpretations Committee tentative agenda decisions
- Deliberation of comments received on proposals for narrow-scope amendments
- Issues considered for Annual Improvements
- Interpretations Committee work in progress
- Interpretations Committee other work

Click to view the IFRIC Update on the meeting of **16-17 July**. The IFRS Interpretations Committee next meets in September 2013.

10. International Auditing and Assurance Standards Board

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

11. International Ethics Standards Board for Accountants

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

Useful Resources

12. Publications

- (i) **Guide** by IASB on the application of IFRS for SMEs by micro-sized entities
- (ii) Updates by **PwC** and **Ernst & Young** on latest developments on IFRS
- (iii) **Update** by RSM Nelson Wheeler on HK(IFRIC)-Int 21 *Levies*
- (iv) **Feedback statement** by IASB on Post-implementation Review of IFRS 8 *Operating Segments*
- (v) **Investor perspectives** by IASB on conceptual framework
- (vi) **Report** by KPMG and Hong Kong Trustees' Association on Hong Kong trust industry

Comment Due Dates

15 August 2013: IASB ED of *Leases*

23 September 2013: ED Revised PN 860.1 *The Audit of Retirement Schemes*

25 September 2013: IASB ED of *Insurance Contracts*

30 September 2013: IASB ED of *Agriculture: Bearer Plants (Proposed Amendments to IAS 16 and IAS 41)*

29 October 2013: IAASB ED *Reporting on Audited Financial Statements: Proposed New and Revised ISAs*

16 December 2013: IASB DP of *Conceptual Framework*

Specialist Practices, Business Members and Advocacy

Corporate Finance

13. HKEx Publishes Listing Rule Changes to Complement New Sponsor Regulation

The Securities and Futures Commission ("SFC")'s new sponsor regulation will come into effect on 1 October 2013. Hong Kong Exchanges and Clearing ("HKEx") has recently announced that it has made appropriate changes to the Listing Rules and streamlined the listing vetting process to complement the new regulation on sponsors, with a view to making the listing process more efficient. The new requirements will apply to listing applications submitted on or after 1 October 2013.

Key features of the new specific measures regarding the listing vetting process and the transitional arrangements are summarized in the [press release](#).

The Listing Rule Amendments ([Main Board](#) and [GEM](#)), relevant new and revised [Guidance Letters](#), checklists and forms, etc. are available on the [Rule Changes to Complement New Sponsor Regulation](#) page of the HKEx website.

14. Institute Submits Views on Connected Transaction Rules and Persons

As reported in [TechWatch no.127](#) (item 16), HKEx [consulted](#) the market on proposed changes to the Listing Rules in relation to connected transactions and aligning the definitions of connected person and associate.

The Institute supports most of the proposed changes, which aim to simplify, improve clarity and address anomalies in the Listing Rules. Read the Institute's submissions on [review of connected transaction rules](#) and [aligning the definitions of connected person and associate](#), respectively, for details.

15. SFC Seeks to Wind-up a Hong Kong-listed Company

The SFC **announced** that it has presented a petition to the Court of First Instance to wind-up China Metal Recycling (Holdings) Limited. This is the first time the SFC has applied to the court under section 212 of the Securities and Futures Ordinance to wind-up a Hong Kong-listed company to protect the interests of the company's shareholders and creditors, and the investing public. The SFC has also obtained orders from the court to appoint provisional liquidators for China Metal Recycling.

The SFC stated that it found evidence suggesting that China Metal Recycling overstated its financial position in its initial public offering prospectus and annual report for 2009. It also found evidence showing that the suspected exaggeration of China Metal Recycling's financial situation remains a current issue that would affect its 2012 financial results, which remain unissued. The SFC's investigation is continuing.

Trading in China Metal Recycling's shares was voluntarily suspended on 28 January 2013.

Insolvency and Corporate Restructuring

16. Institute Submits Views on Legislative Proposals to Improve Hong Kong's Corporate Insolvency Law

As reported in **TechWatch no. 127** (item 18), on 16 April, the government launched a three-month **public consultation** on 46 legislative proposals to improve the corporate insolvency and winding-up provisions of the Companies Ordinance ("CO").

While the Institute, in general, welcomes the review of the law relating to corporate insolvencies and supports many of the proposals which help to streamline and rationalize the procedures for insolvent windings-up, it has reservations about certain specific and quite significant proposals, as indicated in the **submission**. These include proposals in relation to:

- Disqualifying certain categories of persons from appointment as liquidator or provisional liquidator and the requirement to disclose relevant relationships that could give rise to a conflict
- Extending the personal liabilities of liquidators in court-ordered windings-up beyond the time of the release of the liquidator, subject to the leave of the court
- Removing the requirement to hold the first creditors' meeting on the same day as, or the day following, the meeting of members and providing, instead, that the company must call the first meeting of creditors no later than the fourteenth day after the meeting of members
- Designating all provisional liquidators who take office upon and after the making of a winding-up order as "liquidators", such that they will be subject to the provisions in the CO which apply to liquidators

Taxation

17. Announcements by the Inland Revenue Department

Members should be aware of:

- The amended Departmental Interpretation & Practice Notes No. 49, with minor textual amendments for clarity (**English / Chinese**)
- **Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013** has come into operation
- **Hong Kong's double tax agreement with Kuwait** has come into effect
- **Payment arrangements** for Special Stamp Duty
- **A list of qualifying debt instruments** as at 30 June 2013

Legislation & Other Initiatives

18. Reduction of Business Registration Certificate Levy for Companies

The Business Registration Ordinance (Amendment of Schedule 2) Order 2013

came into operation on 19 July 2013. Pursuant to the Order, the levy for business registration ("BR") certificates is reduced from \$450 per annum to \$250 per annum.

The new levy rate applies to BR certificates issued for incorporation applications made on or after 19 July 2013. For registration of non-Hong Kong companies, the new levy rate applies to BR certificates beginning on or after 19 July 2013.

Refer to the [press release](#) and the [Frequently Asked Questions](#) for detail.

19. Companies Registry Update

(i) Statistical information

The Companies Registry ("CR") released statistics for the first-half of 2013 on 14 July 2013. Refer to the [press release](#) and the [statistics section](#) of the CR website for details.

(ii) Study report on the history of company incorporation in Hong Kong

To celebrate its 20th anniversary, the CR has published a study report entitled [History of Company Incorporation in Hong Kong](#), which records the history of company incorporation in Hong Kong since the enactment of the first CO in 1865.

20. Latest Anti-Money Laundering Notices

Members may wish to note the following notices and publications in relation to combating money laundering/terrorist financing ("AML"):

- **Government notice 3641:** An updated list of terrorists and terrorist associates specified under the United Nations (anti-terrorism measures) Ordinance.

- **Government notice 3642:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- **Government notice 3643:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2013.
- **Government notice 4108:** An updated list of relevant persons has been specified under the United Nations Sanctions (Côte d'Ivoire) Regulation 2013.
- **Legal notice 109:** The United Nations Sanctions (Iran) (Amendment) Regulation 2013 has been published in the Gazette.
- **Legal notice 123:** The United Nations Sanctions (Côte d'Ivoire) Regulation 2013 has been published in the Gazette.
- **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 AML, 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

21. 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.

22. 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 (**Series 24**) in relation to Listing Rule changes to complement the SFC's new sponsor regulation
- A listing decision to provide guidance on why certain listing applications were returned (**HKEx-LD75-2013**)
- A guidance letter in relation to disclosure requirements for IPO cases – White and Yellow Application Forms and “How to Apply for Hong Kong Offer Shares” section in a prospectus (**HKEx-GL64-13**)
- Updated guidance letters in relation to
 - pre-IPO investments (**HKEx-GL43-12**)
 - disclosure of (1) land use right certificates and/or building ownership certificates for properties in the PRC; (2) properties with defective titles in the PRC and Hong Kong; (3) idle land in the PRC; (4) civil defense projects in the PRC and (5) land resettlement operations in the PRC (**HKEx-GL19-10**)
- **New and revised guidance letters** for Listing Rule changes to complement the new sponsor regulation
- **Report** on initial public offering applications, delisting and suspensions (as at 31 July)
- **HKEx Securities and Derivatives Markets Quarterly Report – 2nd quarter 2013**

(ii) SFC has published:

- **Fund Management Activities Survey**, which shows that the combined fund management business in Hong Kong rebounded to a record high of HK\$12,587 billion as of the end of 2012, representing year-on-year growth of 39.3%. Major findings are summarized in the **press release**
- **Research Paper No. 53**: Half yearly review of the global and local securities markets
- **Market Capitalisation of the World's Top Stock Exchanges** (as at 30 Jun)

(iii) Articles in *NACD Directorship*, May/June 2013 issue:

- **Questions to ask before joining a board**
- **Board diversity: let's make it personal**

(iv) Articles on corporate governance by Deloitte:

- **CFO insights – why improving board communications is time well spent**
- **Audit committee brief – cybersecurity and the audit committee**
- **The postdigital grapevine – social media and the role of internal audit**
- **Deloitte alert: COSO issues an updated internal control - integrated framework**
- **Asia Pacific economic outlook – Australia, China, India, and Indonesia**