



TechWatch

News at a glance

Issue 132 • October 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 by:
Simon Riley (Editor), Ben Lo, Katherine Leung

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

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Financial Reporting, Auditing and Ethics

New!

1. New Workshops and Forums from October to December

The Institute will hold workshops and forums from October to December 2013 as follows:

- [Financial Reporting Seminar on Property Valuation](#)
- [A Refresher Course on Current Auditing Standards](#)
- [Annual Auditing Update 2013](#)
- [Annual Accounting Update 2013](#)
- [HKICPA/ICAEW Joint Seminar on Ethics for Accountants](#)
- [Overview of Accounting for Group Restructuring and Certain Common Accounting Issues for Initial Public Offering](#)
- [Financial Reporting Seminar on Valuation of Mineral and Petroleum Assets](#)

To secure seats, please register early by completing the registration forms 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. 133

Update No. 133 contains revisions to the Code of Ethics for Professional Accountants (Revised) ("Code") on "conflicts of interest" and "breach of a requirement".

The revision in relation to conflicts of interest establishes more specific requirements and

comprehensive guidance to support professional accountants in identifying, evaluating, and managing such conflicts. The revision affects professional accountants both in public practice and in business, taking into account the different circumstances in which they work.

The revision in relation to breach of a requirement provides guidance with respect to a professional accountant's actions when encountering such a breach. In particular, revisions to the Code establish a robust framework for addressing a breach of an independence requirement.

Financial Reporting

3. Institute Comments on IASB ED

(i) IASB ED of Regulatory Deferral Accounts

The Institute sent a [comment letter](#) to the IASB on its ED of Regulatory Deferral Accounts.

The Institute was concerned whether the recognition of regulatory deferral account balances (or previously "regulatory assets and liabilities") would meet the definitions of assets and liabilities in the *Conceptual Framework*.

In this connection, rather than proposing an interim standard which the Institute believed would only result in reducing comparability (contrary to the objective of the ED), the Institute would recommend the IASB to accelerate the pace on the project on rate-regulated activities with a view to developing interim, non-authoritative, guidance at first, which can then be refined and developed into a standard on accounting for the consequences of rate regulation in the medium-term.

(ii) IASB ED of Leases

The Institute sent a [comment letter](#) to the IASB on its ED of Leases.

The Institute noted that constituents had expressed significant concerns about the

dual accounting model proposed for both lessees and lessors to the point where there was generally a lack of support for those proposals. Concerns had been expressed at the lack of an underlying conceptual basis and complexity of the proposals.

The Institute noted that the dual model for leases contained in the ED was inconsistent with the IASB's initial objective of introducing a single lease accounting model and in recognizing the assets and liabilities that arise from lease contracts.

The Institute was also of the view that the classification model in the proposed standard would create unnecessary complexity in the accounting for leases and accordingly proposed a simplified approach to lease classification, which the Institute believed it would significantly reduce the complexity surrounding the new standard, while still achieving the objective of including significant financing liabilities on the lessee's statement of financial position.

Audit & Assurance

4. Invitations to Comment on Consultation Documents

- (i) ED Revised Practice Note ("PN") 810.2 *The Duties of the Auditor of an Insurer authorized under the Insurance Companies Ordinance*

The Institute has issued an [Invitation to Comment](#) on ED Revised PN 810.2 *The Duties of the Auditor of an Insurer authorized under the Insurance Companies Ordinance*, with comments requested by **16 October 2013**.

The Institute has embarked on a project to align the extant insurance-related PN 810.2 with recent updates to the auditing and assurance pronouncements such as the clarified HKSA, HKSAs 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, HKSRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding*

Financial Information and the current drafting conventions.

In addition, reports previously included in the Auditing Bulletin 2 *Insurance Companies Ordinance Auditors' Reports Issued Pursuant to the Third Schedule* and reporting for employees' compensation gross premium, Motor Insurers' Bureau and Employees Compensation Insurer Insolvency Bureau have been elevated into the ED.

- (ii) ED Revised AATB 1 *Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting*

The Institute has issued an [Invitation to Comment](#) on ED Revised AATB 1 *Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting*, with comments requested by **16 October 2013**.

In December 2012, the Securities and Futures Commission ("SFC") published its consultation conclusions on the regulation of sponsors in connection with Initial Public Offerings ("IPOs") which have now been incorporated into the SFC's code of conduct. The reforms are aimed at ensuring sponsors have a thorough understanding of the listing applicant prior to submitting a listing application and to enhance the quality of disclosures about the listing applicant.

The new IPO sponsor regulatory regime has drawn attention to the quality and nature of due diligence expected to be performed by sponsors under Practice Note 21 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited *Due Diligence by Sponsors in respect of Initial Listing Applications* ("Practice Note 21"). Practice Note 21 sets out due diligence expectations beyond internal controls over financial reporting. As a result of the changes to the SFC's code of conduct, sponsors may wish to engage the

accountants to perform a broader due diligence than has historically been requested.

In view of the above, revisions were made to AATB 1 to provide guidance for members in public practice providing assistance to new applicants and sponsors in connection with due diligence by sponsors in respect of initial listing applications.

International Meetings

5. International Accounting Standards Board

The IASB met on 13-18 September 2013, and discussed the following topics:

- IAS 19 *Employee Benefits* – ED *Defined Benefit Plans: Employee Contributions*
- IAS 1 *Presentation of Financial Statements* amendments
- Annual Improvements project: 2010-2012 and 2011-2013 cycles
- IFRIC Update
- Financial Instruments: Impairment
- Revenue Recognition
- Financial Instruments: Classification and Measurement
- Business combinations under common control
- Separate Financial Statements (Equity Method)
- Rate-regulated Activities

Click to view the IASB Update on the meeting of [13-18 September](#). The IASB next meets in October 2013.

6. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 10-11 September 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 decision
- Deliberation of comments received on proposals for narrow-scope amendments
- Issues considered for Annual Improvements
- Issues considered for narrow-scope amendments
- Interpretations Committee's work in progress
- Interpretations Committee's other work

Click to view the IFRIC Update on the meeting of [10-11 September](#). The IFRS Interpretations Committee next meets in November 2013.

7. International Auditing and Assurance Standards Board

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

8. International Ethics Standards Board for Accountants

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

Useful Resources

9. Publications

- (i) Update by [EY](#) and [KPMG](#) on overview of IFRS

- (ii) EY **Update** on IFRS changes impacting the banking industry
- (iii) Illustrative financial statements from **EY** and **KPMG**
- (iv) KPMG **Disclosure checklist**
- (v) BDO **Update** on HK(IFRIC) – Int 21 *Levies*
- (vi) PwC **Update** on latest developments on IFRS
- (vii) IASB **Investor perspectives** on insurance contracts

Comment Due Dates

16 October 2013: ED Revised PN 810.2 *The Duties of the Auditor of an Insurer authorized under the Insurance Companies Ordinance*

16 October 2013: ED Revised AATB 1 *Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting*

25 October 2013: Consultation Draft *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (Revised)*

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

16 December 2013: IASB DP *Conceptual Framework*

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

10. Principles for Effective Business Reporting Processes

The Professional Accountants in Business Committee of International Federation of Accountants ("IFAC PAIBC") has issued an **Executive Summary** of **Principles for Effective Business Reporting Processes**, which is part of the International Good Practice Guidance series. It summarizes the principles and the key issues PAIBs need to address when implementing effective reporting processes in their organization.

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

Corporate Finance

11. SFC and HKEx Publish Revised Joint Policy Statement on Listing of Overseas Companies

The SFC and Hong Kong Exchanges and Clearing ("HKEx") have published a revised **Joint Policy Statement** regarding the listing of overseas companies ("revised JPS") to replace the statement issued in March 2007. The objectives of the revised JPS are to promote transparency in the listing process and provide regulatory certainty for overseas companies seeking primary or secondary listing in Hong Kong.

The key elements of the revised JPS are:

- Shareholder protection standards – refining key shareholder protection standards by removing from the revised JPS those already covered by the Listing Rules

- Regulatory co-operation arrangements – expanding the regulatory co-operation arrangements expected to be in place with relevant overseas jurisdictions
- Accounting and auditing related and other disclosure requirements – providing guidance on acceptable overseas accounting and auditing standards
- Practical and operational matters – highlighting some practical or operational matters that overseas companies contemplating a listing in Hong Kong may encounter, such as cross-border clearing and settlement
- Suitability for secondary listing – clarifying the approach to vetting the suitability of companies applying for secondary listings
- Waivers – providing guidance on the common waivers HKEx is prepared to grant to an overseas company and on the waivers that are automatically granted to overseas companies if they meet the criteria described in the revised JPS.

12. HKEx Guidance Letter for Long Suspended Companies

HKEx has issued a [guidance letter](#) for long suspended companies, which sets out the current practice and rationale for continued suspension of companies and discusses the criteria for resumption of long suspended companies. It also sets out new administrative requirements for submission of resumption proposals, with a view to improving the process of vetting these proposals.

HKEx has also revised its [monthly prolonged suspension status report](#) to summarize, for each long suspended company, the conditions imposed by the Stock Exchange for resumption, major developments and outstanding issues.

13. HKEx New Statement on Enforcement of Listing Rules and New Procedures for Disciplinary Action

HKEx has published a new statement on its approach to enforcement of Listing Rules and

the criteria for assessing the appropriate level of enforcement action ("[Enforcement Statement](#)").

The general principle is that enforcement of the law takes priority over enforcement of the Listing Rules. HKEx will report conduct that may amount to possible breaches of the law to the appropriate law enforcement authorities and will suspend its investigation if it overlaps with their investigation, to avoid duplication of regulatory resources and possible prejudice to their enforcement action.

HKEx has also implemented new procedures for disciplinary matters involving breaches of the Listing Rules ("[New Procedures](#)"), which apply to disciplinary proceedings commencing from 13 September. Under the New Procedures, more case management powers have been given to the chairman of a disciplinary committee, who can make directions in respect of the procedural matters of a disciplinary action to suit the circumstances of a particular case and in the interests of justice.

A [statement](#) annexed to the New Procedures contains the general principles and factors that a disciplinary or review committee of the Listing Committee should generally take into account when considering and determining sanctions and directions for breaches of the Listing Rules. This is designed to achieve consistency in determining and imposing sanctions.

14. Consultation Conclusions on Regulating OTC Derivative Market

The Hong Kong Monetary Authority ("HKMA") and the SFC have jointly published [conclusions on a joint supplemental consultation](#) in relation to the proposed scope of activities to be regulated under the new over-the-counter ("OTC") derivatives regime, and regulatory oversight of systemically important participants (i.e. market participants who are not licensed or registered with the HKMA or SFC, but whose positions and activities in the OTC derivatives market may raise concerns of potential systemic risk).

The conclusions paper notes that, in general, respondents supported the extension of Hong Kong's licensing regime to intermediaries

that conduct OTC derivatives activities. They agreed that the HKMA and the SFC should have effective regulatory powers in respect of systemically important participants, given the potential risk they may pose to the financial stability of the Hong Kong markets. It also notes that further work is necessary and is being conducted to implement the new OTC derivatives regime.

Restructuring and Insolvency

15. ORO Tender Notices

The Official Receiver's Office ("ORO") is inviting practitioners to submit tenders for taking up of appointments as provisional trustee under section 12(1A) of the Bankruptcy Ordinance (Tender Ref: OR/C/2013), and for conducting preliminary examinations in bankruptcy cases (Tender Ref: OR/B/2013). The contract period for both tenders will be two years ending in December 2015. The deadlines for submission are 12:00 noon on 21 October 2013 and 22 October 2013, respectively.

The tender forms, eligibility criteria and other relevant documents are obtainable from the ORO or the [ORO's website](#).

16. Institute Submits Views on Proposed Reduction in Fees and Deposits in Bankruptcy and Winding-up Proceedings

The Secretary for Financial Services and the Treasury gave notice to move four motions at the Legislative Council ("LegCo") meeting in July 2013 to seek the approval of the LegCo of the [Bankruptcy \(Amendment\) Rules 2013](#), the [Bankruptcy \(Fees and Percentages\) \(Amendment\) Order 2013](#), the [Companies \(Fees and Percentages\) \(Amendment\) Order 2013](#) and the [Companies \(Winding-up\) \(Amendment\) Rules 2013](#). The proposed resolutions seek to reduce certain fees, deposits and charges in relation to bankruptcy and winding-up proceedings.

A [LegCo Bills subcommittee](#) was formed to consider the proposed resolutions. The subcommittee invited interested parties, including the Institute, to submit written views on the proposed resolutions.

The proposed resolutions were considered by the Restructuring and Insolvency Faculty Executive Committee ("RIFEC") of the Institute, and a [submission](#) was made. The Institute also sent representatives from the RIFEC to attend the LegCo subcommittee meeting on 3 October to explain and answer questions on the submission, in particular on the ad valorem fee under the Companies (Fees and Percentages) Order –Table B Item I.

The subcommittee's primary concern appears to be the cost of the debtor's petition under the Bankruptcy Ordinance and what the ORO could do to reduce this, given that some debtors face difficulties raising the deposit. Nevertheless, the Institute's efforts have put on the record insolvency practitioners' concerns about the ad valorem fee, the interest paid to the government under section 295 of the Companies Ordinance and other matters, as set out in the submission.

Taxation

17. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- [Orders](#) made by the Chief Executive in Council implementing three comprehensive double taxation agreements, with Italy, Guernsey and Qatar, were gazetted on 4 October.
- [Court imposes fine and community service order on tax evader](#)
- [A notice](#) on matters under the Business Registration Ordinance
- [A newspaper notice](#) to remind taxpayers to notify change of address

Legislation & Other Initiatives

18. Offences Relating to Preparing Legal Proceeding Instruments by Unqualified Persons

Following concern expressed by a master, the Registrar of the High Court has asked the Institute to draw to members' attention, section 47 of the Legal Practitioners Ordinance (Cap. 159), which stipulates the following:

- (1) Any unqualified person, not being a barrister or a notary public, who, unless he proves that the act was not done for or in expectation of any fee, gain or reward, either directly or indirectly –

(a) draws or prepares any instrument relating to ... any legal proceeding; or

(b) ...

shall be guilty of an offence and shall be liable on summary conviction to a fine of \$500,000. (Amended 46 of 1989 s.14)

19. Latest Anti-Money Laundering Notices

Members may wish to note that the following notices and publications in relation to anti-money laundering/ combating terrorist financing ("AML") are available from the website of the [Hong Kong SAR Government Gazette](#):

- **Government notice 5046:** An updated list of terrorists and terrorist associates specified under the United Nations (anti-terrorism measures) Ordinance.
- **Government notice 5047 (Part 1, 2 & 3):** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- **Government notice 5048:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Libya) Regulation 2011.

- **Government notice 5257:** An updated list of relevant persons has been specified under the United Nations Sanctions (Sudan) Regulation 2013.
- **Legal notice 144:** The United Nations Sanctions (Libya) Regulation 2011 (Amendment) Regulation 2013 has been published in the Gazette.
- **Legal notices 145 & 146:** The United Nations Sanctions (Sudan) Regulation 2013 and the United Nations Sanctions (Sudan) Regulation (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".

More AML-related circulars are available from the website of the [office of the commissioner of insurance](#), click on Regulatory Framework → Anti-Money Laundering and Counter-Terrorist Financing → Guidelines and Circulars → Circulars on Anti-Money Laundering Matters.

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

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:
- New guidance letters in relation to:
 - disclosure in listing documents for IPO cases – information in property valuation reports and market reports ([HKEx-GL65-13](#))
 - long suspended companies ([HKEx-GL66-13](#))
 - compliance adviser requirement for newly listed issuers ([HKEx-GL67-13](#))
 - Updated guidance letters in relation to:
 - disclosure of material non-compliance incidents in listing documents ([HKEx-GL63-13](#))
 - logistical arrangements for publication of application proofs, post hearing information packs and related materials on the HKEx website for listing applicants ([HKEx-GL57-13](#))
 - **New and revised guidance letters** for Listing Rule changes to complement new sponsor regulation (updated in September 2013)
 - Updated listing decisions in relation to:
 - disclosure requirements for listing applicants engaged in the pawn loan business in the People's Republic of China ([HKEx-LD33-2012](#))
 - how a listing applicant's non-compliant financing would affect its listing ([HKEx-LD19-2011](#))
 - Frequently asked questions:
 - a new **series 25** in relation to the listing of overseas companies
 - an updated **series 24** in relation to Listing Rule changes to complement the SFC's new sponsor regulation, which took effect on 1 October 2013
- (ii) SFC has published:
- **Webcast** of Listing Rule changes and streamlined vetting process to complement the SFC's new sponsor regulation
 - **Report** on initial public offering applications, delisting and suspensions (as at 30 September)
- (iii) Articles on corporate governance by Deloitte:
- **Issue no. 26 of Takeovers Bulletin**, which reminds “associates” (i.e. any person who owns or controls 5% or more of any class of relevant securities) of their dealing disclosure obligations under Rule 22 of the Takeovers Code, and clarifies the application of Rule 10.9 to unaudited quarterly results published during an offer period.
 - **CFO insights – are you a strategic CFO? seven essential questions**
 - **Disclosure of long-term business value: what matters?**
 - **Shareholder engagement: a new era in corporate governance**
 - **Asia Pacific economic outlook – China, Japan, Myanmar and Philippines**