



TechWatch

News at a glance

Issue 137 • March 2014

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 from March to May 2014

The Institute will run a series of technical update evenings ("TUE"), workshops and seminars for accounting, auditing and ethics from March to May 2014 as follows:

- TUE – Getting Practical with Internal Control
- TUE – Common questions by SMPs when applying Code of Ethics for Professional Accountants
- Workshop for Audit Staff/Audit Manager
- Audit Practice Manual Application Workshop
- Workshop on Quality Control

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

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 Updates No. 138 - 140

- (i) **Update No. 138** contains the issuance of HKFRS 14 *Regulatory Deferral Accounts*.

HKFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt HKFRS. However, to enhance comparability with entities that already apply HKFRS and do not recognize such amounts,

the Standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents HKFRS financial statements is not eligible to apply the Standard.

- (ii) **Update No. 139** contains consequential amendments to HKFRS which were previously set out in the appendix to the Standards as they were not yet effective. The Institute has taken this opportunity to incorporate the amendments applicable on 1 January 2013 in the relevant affected HKFRS for greater clarity.
- (iii) **Update No. 140** contains revised Statement 1.102 *Corporate Practices (Registration) Rules 2014* ("CPR Rules") and Statement 1.102 (sch.) *Schedule to the CPR Rules "Corporate Practices (Model Articles of Association)" (March 2014)*.

The new Hong Kong Companies Ordinance (Cap. 622) ("CO") will take effect on 3 March 2014. As a result, consequential amendments have been made to the CPR Rules and its schedule, the Model Memorandum and Articles of Association ("M&A"), to conform to the new CO since corporate practices are limited companies.

In the CPR Rules, chapter and section references to the CO have been updated. References to the M&A have also been changed to Articles of Association ("AA") as the memorandum of association has been abolished under the new CO.

The Model M&A for corporate practices have been revised to become the Model AA for corporate practices. Apart from the abolition of the memorandum of association, the Model AA contains the mandatory articles required under the new CO and adopts the relevant model articles in the Companies (Model Articles) Notices (Cap. 622H) of the new CO. The Model AA is applicable to corporate practices incorporated on or after 3 March 2014.

Financial Reporting

3. Invitations to Comment on Consultation Papers

- (i) IASB Request for Information *Post-Implementation Review: IFRS 3 Business Combinations*

The Institute has issued an **Invitation to Comment** on IASB Request for Information *Post-Implementation Review: IFRS 3 Business Combinations*, with comments requested by **30 April 2014**.

The IASB is seeking feedback on whether IFRS 3 provides information that is useful to users of financial statements, whether there are areas of the Standard that represent implementation challenges and whether unexpected costs have arisen when preparing, auditing or enforcing the requirements of the Standard.

- (ii) ED of Accounting Bulletin 5 *Guidance for the Preparation of a Business Review under the CO*

The Institute has issued an **Invitation to Comment** on Exposure Draft ("ED") of Accounting Bulletin 5 *Guidance for the Preparation of a Business Review under the CO*, with comments requested by **22 April 2014**.

Under the new CO, companies are required by section 388 to prepare a business review which complies with Schedule 5 unless exempted.

At the invitation of the Companies Registry, the Institute proposes to issue Accounting Bulletin 5 ("Bulletin") to provide guidance on the preparation of a business review under the new CO.

The proposed Bulletin sets out the key elements for the contents of a business review, including details on particular matters that should be disclosed to the extent necessary to meet the minimum requirements for the business review. It is

also accompanied by Implementation Guidance which contains application examples.

The application of the guidance in the proposed Bulletin may vary considerably depending on whether the company is large or small and whether it is complex or relatively simple. However, in all cases, the directors should ensure that they comply with the minimum requirements of the new CO.

4. Institute Comments on Consultation Papers

- (i) IASB DP of *A Review of the Conceptual Framework for Financial Reporting*

The Institute sent a **comment letter** to the IASB on its Discussion Paper ("DP") of *A Review of the Conceptual Framework for Financial Reporting*.

The Institute appreciated the effort of the IASB to initiate a project to revise the *Conceptual Framework* by issuing this DP. The Institute broadly agreed with the issues raised by the IASB and welcomed in particular the attention on the definition of a liability as a "present obligation arising from past events", given the current difficulties and inconsistent interpretation in the Standards of the concepts of constructive obligation and contingent liability.

The Institute had also raised a number of concerns and recommendations on matters that the Institute considered had not been sufficiently addressed or should be considered as a priority for the IASB as consequential projects.

The Institute also recommended reinstating the pre-2010 guidance on the concept of prudence when revising the *Conceptual Framework*.

- (ii) IASB ED of *Equity Method in Separate Financial Statements (Proposed amendments to IAS 27)*

The Institute sent a **comment letter** to the IASB on its ED of *Equity Method in Separate Financial Statements (Proposed amendments to IAS 27 Separate Financial Statements)*.

The Institute did not object to the proposed amendments to IAS 27 to allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. However, the Institute did not agree with the proposed consequential amendments to IAS 28 *Investments in Associates and Joint Ventures* as the Institute did not believe that the principles applied to loss of control over a subsidiary in IFRS 10 *Consolidated Financial Statements* should be applied in separate financial statements.

In addition, the Institute noted that the equity method of accounting is the subject of an IASB research project and recommended that any amendments to IFRS in relation to the application of the equity method be considered as part of this project.

Audit & Assurance

5. AATB 4 – Guidance on section 408 of the Companies Ordinance

The new CO came into force on 3 March 2014. One of the measures introduced is a new offence imposed by section 408 in relation to certain omissions in auditor's reports. The offence would be committed if an auditor in question knowingly or recklessly caused certain statements required by section 407(2)(b) and (3) to be omitted from the auditor's report.

The Institute issued **Technical Bulletin ("AATB") 4 – Guidance on section 408 of the Companies Ordinance** which:

- sets out the relevant sections in the CO to which the penalty sanctions apply;
- considers the implications of those sections; and

- provides guidance on the auditor's reporting for statutory purposes.

International Meetings

6. International Accounting Standards Board

The IASB met on 19-20 February 2014, and discussed the following topics:

- Rate-regulated Activities
- IFRIC Update
- Equity Method: Share of Other Net Asset Changes
- Narrow-scope amendments – IFRS 2 *Share-based Payment*
- *Sale or contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28)
- Agriculture: Bearer plants
- Fair Value Measurement: Unit of Account
- Financial Instruments: Impairment
- Financial Instruments: Classification and Measurement

Click to view the IASB Update on the meeting of **19-20 February**. The IASB next meets in March 2014.

7. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in March 2014. Click [here](#) for details.

8. IFRS Accounting Standards Advisory Forum

The IFRS ASAF next meets in March 2014. Click [here](#) for details and previous meeting summary.

9. International Auditing and Assurance Standards Board

The IAASB next meets in March 2014. Click [here](#) for details and previous meeting summary.

10. International Ethics Standards Board for Accountants

The IESBA next meets in April 2014. Click [here](#) for details and previous meeting summary.

Useful Resources

11. Publications

- (i) Former IASB Board member Paul Pacter [article](#) on global adoption of IFRS
- (ii) EY [Guide](#) on IASB active projects
- (iii) Deloitte [Update](#) to discuss accounting standards that become mandatorily effective for 2013 financial year
- (iv) PwC [Update](#) on key reminders for 2013 annual financial statements
- (v) Deloitte [Q&A](#) on classification of joint arrangements under HKFRS 11 *Joint Arrangements*
- (vi) Deloitte [Q&A](#) on categorization of fair value of real estate properties under HKFRS 13 *Fair Value Measurement*
- (vii) Deloitte [Q&A](#) on classification of an investee under HKFRS 10 *Consolidated Financial Statements* and HKFRS 11
- (viii) BDO [Update](#) on HKFRS available for early adoption
- (ix) EY [Publication](#) on application of IFRS 12 *Disclosure of Interests in Other Entities* for fund managers
- (x) The Institute [Staff Summary](#) on *Annual Improvements to HKFRSs – 2010-2012 Cycle and 2011-2013 Cycle*

Comment Due Dates

20 March 2014: ED on HKSIR 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness*

22 April 2014: ED of AB 5 *Guidance for the Preparation of a Business Review under the Hong Kong Companies Ordinance Cap. 622*

30 April 2014: IASB Request for Information *Post-Implementation Review: IFRS 3 Business Combinations*

Specialist Practices, Business Members and Advocacy

Corporate Governance

12. New Initiative on Corporate Governance Disclosure

The Institute's new initiative to help companies enhance corporate governance disclosure and practices is an on-line guide. [A Guide on Better Corporate Governance Disclosure](#) initially comprises four topics: the board's roles, internal controls, audit committee and communication with shareholders. In conjunction with the guide, a panel discussion of experts was held on **20 February** and another one will be held on **3 April** to cover the topics in the guide.

13. COSO New Thought Paper on How Frameworks Improve Organizational Performance and Governance

The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") has released a new thought paper, [Improving Organizational Performance and Governance: How the COSO Frameworks Can Help](#), developed to illustrate how the enterprise risk management and internal control frameworks can contribute to enhancing organizational performance and governance for sustainable success. Click [here](#) for more details.

Professional Accountants in Business

14. IFAC Proposes Guidance on Supplementary Financial Measures

The Professional Accountants in Business Committee of International Federation of Accountants ("IFAC PAIBC") has issued proposed International Good Practice Guidance, [Developing and Reporting Supplementary Financial Measures](#), for public comment. This guidance seeks to establish a benchmark for the use of supplementary financial measures, in order to improve understanding of an

organization's performance among management, investors, and other stakeholders.

The guidance is meant for all organizations that want to use supplementary financial measures, regardless of size or structure, private or public. Many such measures are widely used in both internal and external reporting, for example, EBITDA (earnings before interest, taxes, depreciation, and amortization); underlying profit; and free cash flow. Deadline for comments to IFAC is 26 May 2014. If you wish to submit views via the Institute, please write to [<commentletters@hkipa.org.hk>](mailto:commentletters@hkipa.org.hk) by **25 April 2014**.

15. IFAC Discussion Paper on the Role and Expectations of a CFO

The IFAC PAIBC has extended the deadline for responses to its discussion paper, ["The Role and Expectations of a CFO: A Global Debate on Preparing Accountants for Finance Leadership"](#) to 27 March 2014. (See [Techwatch Issue 133](#), November 2013.) The paper seeks to stimulate debate on preparing accountants for finance leadership roles. It sets out five principles that highlight the changing expectations, scope, and mandate of the chief financial officer and finance leadership roles and recommends actions that professional accountancy organizations and employers can take to prepare professional accountants for career progression to finance leadership.

If you wish to submit views via the Institute, please write to [<commentletters@hkipa.org.hk>](mailto:commentletters@hkipa.org.hk) by **21 March 2014**.

16. CIMA/AICPA Launch New Global Accounting Principles

Chartered Institute of Management Accountants ("CIMA") and the American Institute of CPAs ("AICPA") have proposed a comprehensive framework, entitled "Global Management Accounting Principles: Driving better business through improved performance", to bring consistency to management accounting practices around the world.

The draft principles outline the values and qualities that represent best practice management accounting on a global scale. They include guidance on preparing relevant information, modelling value creation, communicating with impact and establishing the professional values of management accountants.

Click [here](#) for more details about the consultation. If you wish to submit views via the Institute, please write to [<commentletters@hkicpa.org.hk>](mailto:commentletters@hkicpa.org.hk) by **25 April 2014**.

17. HKEx Review of Listed Issuers' Financial Reports

On 21 February, Hong Kong Exchanges and Clearing ("HKEx") **announced** the publication of a **report** summarizing key observations and findings from its review of 120 periodic financial reports released by listed companies between October 2012 and September 2013.

The findings indicated that there were no significant breaches of the listing rules or accounting standards that would render the financial statements misleading, would require their restatement or warrant disciplinary action. Where disclosure was insufficient, it was not material to the financial statements as a whole and HKEx obtained confirmation from the companies that the required information would be provided in future financial reports.

Members, in particular directors and those who are responsible for financial reporting of listed companies are encouraged to take note of the matters discussed in the report.

Corporate Finance

18. Institute Submits Views on Proposed Amendments to the Code on Real Estate Investment Trusts

As reported in **TechWatch issue 136** (item 10), Securities and Futures Commission ("SFC") consulted the market on proposed amendments to the Code on Real Estate Investment Trusts ("REITs") to introduce flexibility for REITs to invest in properties under development or

engage in property development activities and in financial instruments.

While the Institute's Corporate Finance Committee, in general, supports the proposals to introduce greater flexibility to the permissible investment scope for REITs within reasonable bounds, it recommends a more gradual approach in terms of opening the door for REITs to invest in financial instruments.

Read the Institute's **submission** for details.

19. SFC Proposes to Strengthen Regulation of Alternative Liquidity Pools

The SFC has **launched** a **consultation** on the future regulation of alternative liquidity pools ("ALPs"), which are also known as alternative trading systems and "dark pools", with comments requested by **25 April 2014**.

The SFC proposes to enhance and standardize the regulatory obligations imposed on Hong Kong licensed corporations that operate ALPs, by including within the Code of Conduct for Persons Licensed by or Registered with the SFC, comprehensive requirements governing their operation. As a result of strengthening the regulation, the SFC will cease its current practice of imposing conditions on the licenses of ALP operators on a case-by-case basis.

If you wish to submit views on this consultation via the Institute, please write to [<commentletters@hkicpa.org.hk>](mailto:commentletters@hkicpa.org.hk) by **11 April 2014**.

20. SFC Amends Codes on Takeovers and Mergers and Share Repurchases

SFC has amended **the Codes on Takeovers and Mergers and Share Repurchases** ("the Codes") to bring them in line with the new CO, which was effective on 3 March.

The amendments change the terminology used in the Codes from share "repurchases" to share "buy-backs", and the Codes have been renamed the Codes on Takeovers and Mergers and Share Buy-backs.

The following housekeeping amendments have been made:

- Change the "Telecommunications Authority" to the "Communications Authority" to reflect changes to the Telecommunications Ordinance
- Reduce the number of copies of a document that must be filed with the Takeovers Executive under Rule 12.1 of the Takeovers Code from six to two to promote environmentally friendly practices
- Delete Rule 26.6 and Note to Rule 26.6 of the Takeovers Code as they are no longer applicable.

The amendments to the Codes were gazetted on 28 February 2014.

21. Amendments to Listing Rules Regarding Annual Listing Fees

The annual listing fees charged by HKEx used to be calculated by reference to the nominal value of an issuer's securities which were or were to be listed. However, the concept of nominal (par) value is abolished under the new CO, which affects Hong Kong incorporated issuers. As a result, HKEx has published [amendments to main board listing rules](#) (and [Growth Enterprise Market \("GEM"\) listing rules](#)) to set out the method by which annual listing fees for Hong Kong incorporated issuers should be calculated upon the commencement of the new CO, which took place on 3 March 2014. These amendments also took effect on 3 March 2014.

[Frequently Asked Questions](#) ("FAQs") series 26 relating to the new CO and its impact on issuers have also been published to provide further explanation of the operation of the amended listing rules on annual listing fees. The FAQs also address the impact of the abolition of nominal (par) value on other areas of the listing rules and provide guidance on those listing rules that may be affected by other provisions of the new CO. These include provisions relating to:

- disclosure requirements for financial statements;
- loans to directors and connected entities;
- provision of financial assistance by a company;
- common and official company seal;
- general meetings; and
- abolition of the memorandum of association.

22. HKEx Comments on New Listing Applications Received after the New Sponsor Regulation Took Effect

On 28 February, HKEx informed the market of the status of the new listing applications that it has received since the SFC's new regulation on sponsors became effective on 1 October 2013 to assist sponsors and other market participants in understanding the rule changes and the streamlined regulatory commenting process.

Out of a total of 18 new listing applications reviewed by HKEx, four failed the initial 3-day check (an initial check of relevant information to be included in the draft prospectus, submitted together with the new listing application, according to a 3-day checklist in the Guidance Letter [HKEx-GL56-13](#)). Of the 14 applications which passed the initial 3-day check, two failed the subsequent qualitative assessment. Deficiencies noted by HKEx are set out in the [news release](#).

HKEx noted that with the submission of "substantially complete" draft prospectus under the new sponsor regime, the average number of comments per application has been reduced substantially and the average vetting time taken from the date of listing application to the Listing Committee hearing has also decreased substantially, as compared to the previous vetting regime.

23. HKEx Seeks Listing Committee Candidates

The HKEx Listing Nominating Committee is seeking applications from individuals interested in serving on the Listing Committee and the GEM Listing Committee. Appointments will be for a term of approximately twelve months, commencing in May/June 2014. Refer to the [Listing Committee Report 2012](#) for information about the role of the Listing Committee and its mode of operation.

The Listing Nominating Committee is particularly interested in receiving applications from individuals who would be able to represent the views of listed issuers, market practitioners (e.g., lawyers, accountants, corporate finance advisers) and investors. Applicants should have an understanding of the listing rules and the context in which listing decisions are made.

Applications may be made by letter, which must be accompanied by a resume and submitted on or before **7 April 2014**. They should be marked confidential and delivered to David Graham, Secretary to the Listing Nominating Committee, 11/F One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, or by email to <LNCsecretary@hkex.com.hk>, or by facsimile to 2812-2862.

Taxation

24. Annual Meeting with the Inland Revenue Department

The annual meeting between representatives of the Institute's Taxation Faculty Executive Committee and the Inland Revenue Department ("IRD") took place on 14 February 2014. At the meeting, the IRD confirmed the due dates for lodging profits tax returns for the year of assessment 2013-14. These are highlighted for members' attention:

Accounting date	Extended due date	Further extended due date (for electronic filing)
"N" Code	2-May-14 (no extension)	16-May-14
"D" Code	15-Aug-14	29-Aug-14
"M" Code	17-Nov-14	29-Nov-14
"M" Code (current year loss cases)	2-Feb-15	2-Feb-15 (same as paper returns)

25. Budget 2014-15

The financial secretary delivered the 2014-15 budget speech on 26 February. In commenting to the media, the Institute said that, generally, more vision and substance needed to be added to the budget's stated theme of competitiveness. The Institute supported various measures, such as the proposal to look into interest expense deductions for corporate treasury operations, the stamp duty waiver on exchange-traded funds and the increases in allowances for dependent parents and grandparents. These were in-line with the Institute's proposals and targeted specific needs.

The Institute hosted a lively budget forum on the evening of budget day, with speakers, legislative councillor Kenneth Leung, Lingnan University's Prof. Ho Lok-sang, and the taxation faculty budget subcommittee convenor, Curtis Ng. Taxation faculty executive committee chair, Florence Chan, was the moderator.

Click for the:

- [Full budget speech](#) and [highlights](#)
- [Summary of the tax measures](#)
- Institute's [response](#) and [budget proposals](#)

26. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- The **legislative council question** about the false Employer's Returns of Remuneration and Pension. The response stated that during the post-assessment audits, if the IRD was doubtful about the returns, it would request taxpayers to provide more supporting information. Under the Inland Revenue Ordinance ("IRO"), making incorrect returns with intent to evade tax would be subject to heavy penalties. While it was not a statutory requirement to provide a copy of the completed Employer's Returns (IR56B) to employees, IRD reminded employers to do so in the "Notes and Instructions" of the returns.
- **Advance ruling case no. 54** about section 14 of the IRO: A company incorporated in Hong Kong engages in garment trading. In order to determine the source of trading income, factors like the place of acquiring trade facilities, issuing letter of credits, negotiating and settling trade debts, etc. should be considered. Although the company's involvement in the initiation, negotiation or conclusion of trading transactions is not apparent, the relevant goods are originated from and can be loaded in Hong Kong. The trade finance is also obtained at the same place. Therefore, the trading income was ruled to be taxable.
- The gazetting of the Stamp Duty (Amendment) Ordinance 2014, which adjusts the duty rates and extends the property holding period in respect of Special Stamp Duty, and introduces a Buyer's Stamp Duty. Please refer to Stamping Circulars **No. 02/2014** and **No. 03/2014** for the new stamping arrangements.
- The IRD's **acceptance** to receiving 2013/14 profits tax returns in which the assessable profits are computed on a fair value basis, as an interim measure, following the judgment of the Court of Final Appeal in *Nice Cheer Investment Limited v CIR*. The

IRD also agrees to re-compute 2013-14 assessable profits computed on a fair value basis, if the taxpayer subsequently adopts the realization basis, subject to the time limits laid down in the IRO.

- The **expiry** of the Revenue (Reduction of Business Registration Fees) Order 2013.

27. Release of Report of the Working Group on Long-term Fiscal Planning

The financial secretary announced the setting up of a Working Group on Long-term Fiscal Planning in the 2013-14 budget and he highlighted some of its findings in the 2014-15 budget, including the possibility of future structural fiscal deficits. The **report** of the working group has now been published with an accompanying **press release**.

Legislation & Other Initiatives

28. Companies Registry Issues New External Circulars

The Companies Registry has issued the following two external circulars to prepare for the commencement of the new CO on 3 March 2014:

- No. 10/2014: **Offence Relating to Contents of Auditor's Report**
- No. 11/2014: **Companies (Directors' Report) Regulation (Cap. 622D) Disclosure of Information in Directors' Report – equity-linked agreements and reasons for resignation or refusal to stand for re-election of a director**

29. Anti-Money Laundering

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

- **Financial action task force (FATF) public statement**: Draws attention of its members (Hong Kong has been a member since 1990) on the risks of transactions involving Iran, Democratic People's Republic of Korea, Algeria, Ecuador, Ethiopia,

Indonesia, Myanmar, Pakistan, Syria, Turkey and Yemen.

- **FATF's document, 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 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

30. 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.

31. Other Publications

- (i) HKEx has published:
 - A listing decision to provide guidance on why HKEx returned certain listing applications ([HKEx-LD84-2014](#))
 - Updated guidance letters in relation to:
 - documentary requirements and administrative matters for new listing application (equity) ([HKEx-GL55-13](#))

- (i) disclosure requirements for substantially complete application proofs; (ii) a 3-day checklist for disclosure matters that HKEx will check in application proofs prior to acceptance; and (iii) publication of application proofs and post-hearing information packs on HKEx's website ([HKEx-GL56-13](#))
- logistical arrangements for publication of application proofs, post-hearing information packs and related materials on HKEx's website for listing applicants ([HKEx-GL57-13](#))
- **FAQ series 26** relating to the new CO and its impact on issuers
- **Report** on initial public offering applications, delisting and suspensions (as at 28 February)
- (ii) SFC has published **quarterly report** which summarizes its key regulatory developments in October to December 2013
- (iii) Articles on corporate governance by Deloitte:
 - **Analytics trends 2014**
 - **Audit committee brief – the 2013 COSO framework and the audit committee**