



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



TechWatch

News at a glance

Issue 142 • August 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 August to October 2014

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

- **TUE – Common questions by SMPs when applying Code of Ethics for Professional Accountants**
- **HKFRS for Private Entities Workshops**
- **Audit Practice Manual Application Workshop**
- **Workshop for Audit Manager**
- **Workshop for Audit Staff**

To secure seats, please register early by completing the registration forms by clicking on the above event titles.

Members' Handbook

2. Handbook Updates No. 151 - 154

- (i) **Update No. 151** contains HKFRS 15 *Revenue from Contracts with Customers*.

The core principle of HKFRS 15 is for entities to recognize revenue to depict the transfer of goods or services to customers at amounts that reflect the contractual consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2017 with earlier application permitted.

- (ii) **Update No. 152** contains consequential amendments to various HKFRSs.

The Institute has consolidated amendments applicable from 1 January 2013 (which were previously set out in an appendix to another standard) in the relevant HKFRS.

- (iii) **Update No. 153** contains Redrafted Statement 1.500 *Continuing Professional Development*.

Statement 1.500 is amended to clarify the existing CPD exemption arrangements since the introduction of the current CPD exemption criteria in August 2010. Since then, members who are directors of any company (listed or unlisted) are not eligible for exemption from the CPD requirements even if they have otherwise retired from work. This is because accountancy related work includes financial accounting, corporate taxation and governance which are some of the responsibilities of a director of a company. Hence, a director is involved in accountancy related work and is not eligible for CPD exemption.

- (iv) **Update No. 154** contains AB 5 *Guidance for the Preparation and Presentation of a Business Review under the Hong Kong Companies Ordinance Cap. 622* ("AB 5").

AB 5 provides guidance for the preparation of a business review under section 388 of the Companies Ordinance ("CO"), which complies with the requirements of Schedule 5 to the CO and provides information that is useful for members of the company. Section 388 (and consequently Schedule 5) applies in relation to financial years beginning on or after 3 March 2014. This AB is for guidance only and does not introduce additional accounting, disclosure or legal requirements.

Financial Reporting

3. HKICPA Financial Reporting Standards Committee

The **FRSC minutes** of the meeting held on 22 May 2014 covered the following items:

- Report on IFRS Advisory Council Meeting on 24 and 25 February 2014
- ASAF meeting June 2014
- Reports from IFRS working groups
- Members' handbook update
- Report from the Working Group on Companies Ordinance application issues on financial reporting

4. Institute Comments on Consultation Papers

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

The Institute sent a **comment letter** to IASB on its Request for Information on *Post-Implementation Review: IFRS 3 Business Combinations*.

The Institute continued to support the post-implementation review initiative with the aim of ensuring consistent, high quality financial reporting that provides useful information to investors.

The Institute recommended the IASB should consider drawing a clearer dividing line between asset purchases and business acquisitions. The IASB should also reconsider the conceptual basis underlying the different accounting treatments in the two models.

The Institute also recommended the IASB to revisit the accounting treatment of non-amortization of goodwill (with annual impairment testing) and consider whether the alternative of an amortization-based accounting model (with indicator-based

impairment testing) would be more appropriate. Conceptually, the Institute considered that the current approach fails to address the fact that over time purchased goodwill in most cases was inevitably replaced by goodwill that was generated internally. In addition, amortization of goodwill would increase comparability between entities that grow their business organically and those that grow primarily through acquisition. From a cost-benefit perspective, the Institute believed an amortization-based model could help to reduce the tension and implementation challenges in identifying and measuring intangibles, which required significant understanding, interaction and cooperation among the accounting and valuation professions.

The Institute also had concerns on the recognition of certain intangible assets that were acquired in a typical business combination such as: customer relationship, customer list and brands. The nature of those intangible assets was similar to a sub-classification of goodwill and it may be questionable to recognize such assets separately.

- (ii) IASB Exposure Draft ("ED") of *Disclosure Initiative*

The Institute sent a **comment letter** to IASB on its ED of *Disclosure Initiative* (Proposed amendments to IAS 1 *Presentation of Financial Statements*). The Institute appreciated the effort of the IASB to initiate the Disclosure Initiative project with a view of improving disclosure requirements contained in IFRS and, in particular, welcomed the proposed narrow-scope amendments contained in this ED to address the significant concerns on disclosure overload as the first step of this project.

The Institute broadly agreed with the proposals in the ED so that preparers can apply judgement in disclosing information which is considered to be relevant. In the long-run, the Institute believed more fundamental changes should be proposed

by the IASB so as to help avoid the "checklist" approach adopted currently in many accounting standards, which essentially set out lists of detailed disclosure requirements rather than presenting broad disclosure objectives.

Audit & Assurance

5. Institute Comments on IAASB ED

The Institute sent a [comment letter](#) to IAASB on its ED on ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* and Proposed Consequential and Conforming Amendments to Other ISAs.

The Institute supported in principle the IAASB's continuing efforts to narrow the expectation gap and to address practitioners' concerns in the revised ED. However, the Institute noted the IAASB has not fully considered the recommendation in the Institute's March 2013 submission to undertake a separate project of studying whether a separate assurance engagement on other information would serve the needs of the market.

International Meetings

6. International Accounting Standards Board

The IASB met on 22-24 July 2014, and discussed the following topics:

- Disclosure Initiative
- Insurance Contracts
- *Annual Improvements to IFRSs 2012-2014 Cycle*
- *Annual Improvements to IFRSs 2014-2016 Cycle*
- Matters arising from the IFRS Interpretations Committee
- Conceptual Framework
- Leases

- Research programme
- Rate-regulated Activities

Click to view the IASB Update on the meeting of [22-24 July 2014](#). The IASB next meets in September 2014.

7. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 15-16 July 2014, and discussed issues related to the following standards:

- IAS 1 *Presentation of Financial Statements*
- IAS 2 *Inventories*
- IAS 12 *Income Taxes*
- IAS 16 *Property, Plant and Equipment*
- IAS 19 *Employee Benefits*
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*
- IAS 34 *Interim Financial Reporting*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 2 *Share-Based Payment*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Click to view the IFRIC Update on the meeting of [15-16 July](#). The IFRS Interpretations Committee next meets in September 2014.

8. IFRS Accounting Standards Advisory Forum

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

9. International Auditing and Assurance Standards Board

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

10. International Ethics Standards Board for Accountants

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

Useful Resources

11. Publications

- (i) BDO [update](#) on *Clarification of Acceptable Methods of Depreciation and Amortization*
- (ii) BDO [update](#) to highlight key areas of changes of new Companies Ordinance
- (iii) Deloitte [update](#) to discuss how the new Companies Ordinance impacts on financial statement preparation
- (iv) EY [guide](#) on application of IFRS 11 *Joint Arrangements*
- (v) EY [guide](#) on application of IFRIC 21 *Levies*
- (vi) EY [guide](#) to summarize key features of the IASB's active project together with their potential implications
- (vii) PwC [guide](#) on new IFRS for 2014
- (viii) [Deloitte](#), [EY](#), [KPMG](#) and [PwC](#) updates on new revenue recognition standard

Comment Due Dates

11 August 2014: IAASB ED Proposed Changes to the International Standards on Auditing Addressing Disclosures in the Audit of Financial Statements

18 August 2014: IASB ED of *Investment Entities: Applying the Consolidation Exception (Proposed Amendments to IFRS 10 and IAS 28)*

15 September 2014: IASB DP of *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*

Advocacy and Practice Development/ Member Support

Corporate Finance

12. SFC Launches Corporate Regulation Newsletter

The Securities and Futures Commission ("SFC") published the first issue of **Corporate Regulation Newsletter** on 9 July 2014 to improve the quality of disclosures by listed companies and listing applicants.

Since the statutory inside information disclosure regime came into effect on 1 January 2013, the number of inside information announcements increased by 52% in 2013. This suggests that the market has been benefited from greater corporate disclosure and more transparency. The SFC now focuses on making such announcements more meaningful. For example, companies are asked to provide clearer and more structured disclosures in profit alerts/warnings announcements, e.g., to provide specific amounts wherever possible.

Sponsors of listing applicants are reminded to look critically at what constitutes meaningful disclosures, in particular, on risk disclosure in listing documents and the opinions of experts engaged on technical matters.

The newsletter also sets out the role of the SFC's new corporate regulation team, which oversees listed companies, focusing on disclosure and corporate misconduct.

13. Consultation Conclusions on Amendments to the Code on Real Estate Investment Trusts

On 22 July, the SFC released **consultation conclusions** on proposed amendments to the Code on Real Estate Investment Trusts ("REITs") to introduce flexibility for REITs to invest in property development activities and financial instruments.

TechWatch no. 136 (item 10) and **no. 137** (item 18) contain further details about the consultation and the Institute's submission, respectively.

As the proposed amendments were generally supported by the market, they would be adopted with some modifications and amendments taking into account the comments received. The SFC would provide further practical guidance on the REIT code in the form of frequently asked questions ("FAQs").

14. Consultation on Mandatory Reporting and Record Keeping Rules for OTC Derivatives

On 18 July, the Hong Kong Monetary Authority ("HKMA") and the SFC launched a one-month **consultation** on the requirements relating to the mandatory reporting and related record keeping obligations under the new over-the-counter ("OTC") derivatives regime. The requirements aim to enhance financial market stability by increasing transparency in the OTC derivatives market.

The consultation period will end on 18 August 2014. Following consultation, the proposed requirements will be set out in subsidiary legislation to be made under the new regime.

Members who wish to submit views via the Institute, please send them to commentletters@hkicpa.org.hk before **13 August 2014**.

15. Institute Comments on Open-ended Fund Companies

As reported in **TechWatch no. 139** (item 17), the Financial Services and the Treasury Bureau issued a **consultation paper** on introducing a new open-ended fund company ("OFC") structure to expand Hong Kong's legal infrastructure for investment fund vehicles, with an aim to further develop Hong Kong as an international asset management centre of choice.

The Corporate Finance Committee studied the paper and submitted views on the proposed policy framework, operation and regulatory structure and principles for OFCs. In principle, it is supportive of the key proposals, including:

- the adoption of OFCs as an additional legal structure for investment funds in Hong Kong
- the overarching principles for OFCs, in particular, that a distinction should be drawn between publicly offered and privately offered OFCs
- the SFC be the primary regulator of OFCs, since OFCs are primarily vehicles for investment funds
- detailed regulation of OFCs be set out in subsidiary legislation and the SFC code to facilitate future modifications

Given that the proposed OFC legal regime, including the corporate filing and registration and the termination and winding up requirements, appeared to overlap with the Companies Ordinance (Chapter 622) ("CO") and the CO/ Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32) ("Cap 32"), which contain their own enforcement provisions, and that details of the OFC legal framework were not clear at this stage, the practical interface between the OFC framework and the CO and Cap 32 was highlighted. The importance of providing a clear segregation of roles between the regulators so as to avoid any regulatory gaps, on the one hand, and overlapping regulatory functions on the other, was emphasized.

Also, to be in line with the existing unit trust regime, it was proposed that the investment functions of OFCs should be permitted to be delegated to overseas managers based in jurisdictions with an acceptable inspection regime, and that the trustees/ custodians should be permitted to be banking institutions or trust companies incorporated outside Hong Kong and acceptable to the SFC.

Read the [submission](#) for more details.

Taxation

16. Announcements by the Inland Revenue Department and Other Tax Matters

Members may wish to be aware of the following matters:

- New [DIPN No. 50](#) on alternative bond schemes (Islamic finance)
- [Tax treaty with Korea signed](#)
- Community service order and fine [for ex-senior manager over tax evasion](#), and [for taxpayer convicted of falsely claiming deductions of expenses for self-education and approved charitable donations](#)
- The gazetting of the Stamp Duty (Amendment) (No. 2) Ordinance 2014. Please refer to Stamping Circular Nos. [05/2014](#), [06/2014](#) and [07/2014](#) for the new stamping arrangements. The [FAQs](#) and the [illustrative examples](#) have also been updated.

Legislation & Other Initiatives

17. Companies Registry Update

- (i) External circular

The Companies Registry ("CR") has issued external circular no. 13/2014 [Companies \(Disclosure of Company Name and Liability Status\) Regulation \(Cap.622B\) - Disclosure of Company Name](#) to clarify the relevant requirements relating to the disclosure of company name pursuant to sections 3(1) and 4 of the Companies (Disclosure of Company Name and Liability Status) Regulation (Cap.622B).

- (ii) Statistical information

The CR released statistics for the first-half of 2014 on 13 July 2014. Refer to the [press release](#) and the [statistics section](#) of the CR website for details.

18. Anti-Money Laundering

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

- **Government notice 3804:** An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 3805:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- **Government notice 3806:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic People's Republic of Korea) Regulation.
- **Government notice 3807:** An updated list of relevant persons has been specified under the United Nations Sanctions (Sudan) Regulation 2013.
- **Government notice 3922:** A list of relevant persons has been specified under the United Nations Sanctions (Central African Republic) Regulation.
- **High-risk and non-cooperative jurisdictions:** In June, the Financial Action Task Force (FATF) issued two documents:
 - **FATF public statement**, identifying jurisdictions with strategic AML/CFT deficiencies that pose risk to the international financial system.
 - **Improving global AML/CFT compliance: on-going process**, identifying jurisdictions with strategic AML/CFT deficiencies, for which they have developed an action plan with the FATF.

- **FATF report - Virtual currencies: key definitions and potential AML/CFT risks:** The FATF report considers the characteristics of virtual currencies to preliminarily assess the ML/FT risk associated with this payment method.
- **FATF report - Risk of terrorist abuse in non-profit organisations (NPOs):** Against the background of FATF Recommendation 8 that requires countries to review their laws and regulations to prevent the abuse of NPOs for terrorist financing, the report considers how and where NPOs are at risk. It includes case studies to increase awareness of the methods and risk of abuse for terrorism in the NPO sector.
- **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

19. Library Resources

Featured titles and **new books** for members' reference are now available.

In addition, members can [login](#) to the **e-Library** and access e-journals and e-books on a wide range of business subjects.

20. Other Publications

- (i) Hong Kong Exchanges and Clearing Limited has published:

- **Report** on initial public offering applications, delisting and suspensions (as at 31 July)

- (ii) The SFC has published:
 - **Research paper no.55**: Half-yearly review of the global and local securities markets

 - **Speech by Mark Steward**, SFC's executive director of enforcement, delivered at the Asian Chief Audit Executives Leadership Forum 2014

- (iii) Articles on corporate governance by Deloitte:
 - **Building world-class ethics and compliance programs: making a good program great**

 - **Getting on board: why 'crossing the CASM' is key to minimizing risk**

 - **For audit committees, a growing role in cybersecurity**

 - **Audit committee brief – finance talent: building sustainable leadership**

- (iv) **Dealing with shareholder activism** by King & Spalding