



TechWatch

News at a glance

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TechWatch updates you on technical developments in financial reporting, auditing, ethics, regulation and business. The Institute welcomes your comments, emailed to < commentletters@hkipa.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 October to November 2014

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

- **TUE – Guardian Role of Professionals in Upholding Ethical Governance**
- **TUE – Common questions by SMPs when applying Code of Ethics for Professional Accountants**
- **Workshop for Audit Staff**
- **Workshop for Audit Manager**
- **Workshop on Internal Control – Use of data analytics in internal audit process**
- **Workshop on Internal Control – Fundamental IT audit for financial statements audit**
- **Workshop on a successful listing in HK**
- **Seminar for Consultation Paper on Review of Listing Rules on Disclosure of Financial Information with reference to the New Companies Ordinance and HKFRSs**
- **Annual Auditing Update 2014 "Upholding Audit Quality and Meeting Stakeholders Expectation"**
- **Annual Accounting Update 2014**

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 2014 to June 2015.

Members' Handbook

2. Handbook Updates No. 156 - 158

- (i) **Update No. 156** contains HKFRS 9 (2014) *Financial Instruments*.

The issuance of HKFRS 9 (2014) completes the IASB's comprehensive response to the financial crisis. The Standard includes a logical model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially-reformed approach to hedge accounting.

HKFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

- (ii) **Update No. 157** contains *Equity Method in Separate Financial Statements* (amendments to HKAS 27 *Separate Financial Statements*), which allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

- (iii) **Update No. 158** contains conforming amendments to HKSA 700 (Clarified) *Forming an Opinion and Reporting on Financial Statements*, HKSA 810 (Clarified) *Engagements to Report on Summary Financial Statements* and revised PN 900 (Revised) *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*.

The AASC has embarked on a project to update the relevant auditing and assurance pronouncements for the new Hong Kong Companies Ordinance (Cap. 622) ("new CO"). As part of the project, the first batch of revised pronouncements was issued in June 2014. The second batch of revised pronouncements includes HKSA 810 (Clarified) and PN 900 (Revised).

HKSA 700 was one of the revised pronouncements issued in June 2014. This Update is to insert Illustration 2 "An auditor's report for a company incorporated in Hong Kong and where the financial statements are prepared in accordance with Hong Kong Small and Medium-sized Entity Financial Reporting Standard" in the Appendix.

Financial Reporting

3. HKICPA Financial Reporting Standards Committee

The **FRSC minutes** of the meeting held on 24 July 2014 covered the following items:

- Report on the IASB Accounting Standards Advisory Forum
- Update on planning for the 2014 Annual AOSSG Meeting
- IASB Post-implementation review of IFRS 8 *Operating Segments*
- Members' handbook update
- Annual Accounting Update 2014
- Report from the Working Group on Companies Ordinance application issues on financial reporting

4. Invitations to Comment on IASB Consultation Papers

- (i) IASB Discussion Paper ("DP") of *Reporting the Financial Effects of Rate Regulation*

The Institute has issued an **Invitation to Comment** on IASB DP of *Reporting the Financial Effects of Rate Regulation*, with comments requested by **5 December 2014**.

As stated in the IASB's press release, accompanying the DP, the DP describes a type of rate regulation that contains elements of both cost recovery and incentive approaches - this type of rate regulation is termed defined rate regulation.

The DP seeks comments on whether or not the distinguishing features of defined rate regulation, as identified by the IASB, sufficiently capture the type(s) of rate regulation that have the most significant financial effects.

The DP does not include any specific accounting proposals. Instead, it explores what information about rate-regulated activities is most useful to users of financial statements and outlines possible approaches (and the accompanying advantages and disadvantages) that the IASB could consider in deciding how best to report the financial effects of rate regulation.

The DP also seeks comments on whether the presentation and disclosure requirements of IFRS 14 *Regulatory Deferral Accounts* should form the basis of any future proposals that the IASB may develop as a result of feedback from this consultation. IFRS 14 was issued in January 2014 as a temporary measure until the IASB concludes this project.

- (ii) IASB Exposure Draft ("ED") of *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed Amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)*

The Institute has issued an **Invitation to Comment** on IASB ED of *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements, IAS 28 Investments in Associates and Joint Ventures and IAS 36 Impairment of Assets and Illustrative Examples for IFRS 13 Fair Value Measurement)*, with comments requested by **5 December 2014**.

As stated in the IASB's press release, accompanying the ED, the proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 aim to address questions received on:

- the unit of account for investments in subsidiaries, joint ventures and associates and on the fair value measurement when those investments are quoted in an active market (quoted investments); and
- the measurement of the recoverable amount of cash-generating units ("CGUs") on the basis of fair value less costs of disposal when they correspond to entities that are quoted in an active market ("quoted CGUs").

The proposed amendments clarify that an entity should measure the fair value of quoted investments and quoted CGUs as the product of the quoted price for the individual financial instruments that make up the investments held by the entity and the quantity of financial instruments.

The ED also includes proposed amendments to the Illustrative Examples for IFRS 13 to clarify questions received relating to the application of the exception in paragraph 48 of IFRS 13. The example illustrates the fair value measurement of an entity's net exposure to market risks arising from a group of financial assets and financial liabilities whose market risks are substantially the same and whose fair value measurement is categorized within Level 1 in the fair value hierarchy.

5. Institute Comments on IASB ED

The Institute sent a [comment letter](#) to IASB on its Exposure Draft ED/2014/2 Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28).

The Institute supported the clarification that the exemption from presenting consolidated financial statements was available to an intermediate parent entity that was a subsidiary of an investment entity. The Institute also supported the clarification that the exception to fair value measurement of a subsidiary only applied to subsidiaries that acted as an extension of the operations of the investment entity parent, and did not themselves qualify as investment entities.

The Institute did not support the IASB's proposal of introducing a differential application of the equity method by an investor in an investment entity associate or joint venture. The Institute saw no conceptual reason to require that the equity method was applied differently to associates and joint ventures in the cases addressed in the ED. The Institute believed that the equity method should be determined on the same basis regardless of whether the underlying entity was an associate or a joint venture. The Institute suggested that if the fair value measurement of an investment entity's subsidiaries provided useful information, it should be retained by a non-investment entity investor when applying the equity method to both of its investment entity associates and joint ventures.

In addition, the Institute believed that the discussion relating to the relevance of the condition set out in paragraph 4(a)(iv) of IFRS 10 had broader applicability beyond the situation immediately facing intermediate holding companies which were subsidiaries of investment entities. The condition set out in paragraph 4(a)(iv) had proved problematic to satisfy for many Hong Kong investment holding companies which satisfied conditions (i) through (iii) of paragraph 4 of IFRS 10. A separate [letter](#) dated 7 March 2014 was submitted to the IASB setting out the details of the concerns and the proposed solutions for the consideration by the Board.

Audit & Assurance

6. HKICPA Auditing and Assurance Standards Committee

The [AASC minutes](#) of the meeting held on 15 July 2014 covered the following items:

- Work Plan Status Report and Update from Working Groups
- IAASB's re-exposure draft on ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* and Proposed Consequential and Conforming Amendments to Other ISAs
- Update on HKSIR project

- Revised HKSA 810 *Engagements to Report on Summary Financial Statements*
- Annual Auditing Update Conference 2014

7. Institute Comments on IAASB ED

The Institute sent a [comment letter](#) to IAASB regarding its ED on Proposed Changes to the ISAs *Addressing Disclosures in the Audit of Financial Statements*.

The Institute supported the IAASB's continuing efforts to address disclosures in the audit of financial statements. However, the Institute noted the proposed changes in the ISAs did not reflect the depth of issues and discussion as highlighted in the 2011 DP "Evolving Nature of Financial Reporting: Disclosure and its Audit Implications". Given the complexity of financial statements disclosures in recent years, the Institute believed it was important for the IAASB to continue its dialogue with the IASB to align the respective standards on key issues such as the application of materiality concept and evaluation of misstatements.

The Institute appreciated the IAASB's difficulties in proposing appropriate level of changes in the ISAs to deal with the different types of disclosures and encouraged the IAASB to further develop guidance to cover key issues encountered by practitioners.

International Meetings

8. International Accounting Standards Board

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

- Disclosure Initiative
- Research Project
- Insurance Contracts
- *Conceptual Framework*
- IFRIC *Update*
- IAS 21 *The Effects of changes in Foreign Exchange Rates* – Foreign exchange restrictions and hyperinflation
- IAS 1 Presentation of Financial Statements – Classification of liabilities
- Distinction between a change in accounting policy and a change in accounting estimate
- Classification of a hybrid financial instrument by the holder
- Post-implementation Review: IFRS 3 *Business Combinations*

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

9. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 16-17 September 2014, and discussed the following topics:

- IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* - write-down of a disposal group and reversal of impairment losses relating to goodwill recognized for a disposal group
- IFRS 11 *Joint Arrangements* - implementation issues
- IAS 12 *Income Taxes* - measurement of current income tax on uncertain tax position
- IFRIC 14 *IAS 19 - the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* - availability of refunds from a defined benefit plan managed by an independent trustee
- IFRS 12 *Disclosure of Interests in Other Entities* - disclosures for a subsidiary with a material non-controlling interest and for a material joint venture or associate
- IFRS 13 *Fair Value Measurement* - the fair value hierarchy when third-party consensus prices are used

- IAS 28 *Investments in Associates and Joint Ventures* - fund manager's significant influence over a fund
- IAS 39 *Financial Instruments: Recognition and Measurement* - accounting for embedded foreign currency derivatives in host contracts
- IFRIC 21 *Levies* - levies raised on production property, plant and equipment
- *Conceptual Framework* – transition and effective date
- Interpretations Committee work in progress update
- Review of Interpretations Committee Activities

Click to view the IFRIC Update on the meeting of **16-17 September**. The IFRS Interpretations Committee next meets in November 2014.

10. IFRS Accounting Standards Advisory Forum

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

11. International Auditing and Assurance Standards Board

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

12. International Ethics Standards Board for Accountants

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

Useful Resources

13. Publications

- (i) KPMG [illustrative financial statements](#) and [disclosure checklist](#) for 2014 year-end
- (ii) The Institute's [alert](#) on SME-FRF & SME-FRS (Revised)

(iii) [BDO](#), [Deloitte](#), [EY\(1 / 2\)](#), [KPMG](#) and [PwC \(1 / 2\)](#) update on new financial instruments standard

(iv) [BDO](#) update on *Bearer Plants* amendment

(v) Zhonghui Anda [update](#) on equity method in separate financial statements

Comment Due Dates

24 October 2014: IFAC's IESBA ED on Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

14 November 2014: IASB ED of *Recognition of Deferred Tax Assets for Unrealized Losses* (Proposed Amendments to IAS 12 *Income Taxes*)

5 December 2014: IASB DP of *Reporting the Financial Effects of Rate Regulation*

5 December 2014: IASB ED of *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (Proposed Amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and *Illustrative Examples for IFRS 13*)

Advocacy and Practice Development/ Member Support

Corporate Governance

14. Institute Issues Submission on Internal Controls Consultation

The Institute **submitted** its views on HKEx's consultation paper on proposed changes to the Corporate Governance Code ("the CG Code") relating to internal controls. While, generally, agreeing with the thrust of the proposals, particularly the proposal to extend the scope of the relevant parts of the CG Code to cover risk management, the Institute made a number of technical points and suggestions to help make the proposed requirements and best practice recommendations clearer. The opportunity was also taken to advocate the re-introduction of a requirement for a qualified accountant in listed companies, who would have the authority and capability to oversee the finance and accounting function, and the financial, as well as operational and compliance, controls.

Professional Accountants in Business

15. Developing and Reporting Supplementary Financial Measures – Definition, Principles, and Disclosure

The IFAC Professional Accountants in Business (PAIB) Committee has released International Good Practice Guidance, *Developing and Reporting Supplementary Financial Measures*, to provide recommendations for the use of supplementary financial measures as part of high-quality financial reporting in organizations.

Since supplementary financial measures fall outside the remit of GAAP, they may lack transparency, comparability and consistency, which are essential qualities for investors and other stakeholders wanting to assess financial performance. To address this challenge, the **guidance** establishes a set of principles that allows professional accountants to develop and report useful measures in accordance with the qualitative characteristics of financial information.

Corporate Finance

16. Amendments to Listing Rules Governing Authorized Collective Investment Schemes

Hong Kong Exchanges and Clearing Limited ("HKEx") has published amendments to Chapter 20 of the Main Board Listing Rules governing Collective Investment Schemes ("CIS") that are authorized by the Securities and Futures Commission ("SFC").

The Rule amendments aim to:

- clarify the eligibility requirement of a listing agent who handles a listing application on behalf of a new CIS applicant
- streamline the application procedures for a new CIS applicant
- clarify the procedures for the listing of additional interests in a close-ended CIS after listing.

The **Rule amendments** will apply to listing applications submitted on or after 10 November 2014. A guidance letter (**HKEx-GL79-14**) and a set of revised **checklists and forms** have been published in relation to the Rule amendments.

17. Initial 3-Day Check of Application Proofs Discontinued after 30 September

HKEx **discontinued the initial 3-day check of application proofs** after 30 September 2014. This decision was made in view of a decrease in the return rate of application proofs, indicating that the market has become reasonably familiar with the requirements for a "substantially complete" application proof. Revised guidance letter (**HKEx-GL56-13**) applies to applications submitted on or after 1 October 2014.

With effect from 1 October 2014, an application proof is published on the HKExnews website at the same time a listing application is filed with HKEx or an application for authorization is filed with the SFC (in the case of applications under chapter 20 of the Listing Rules).

18. Transaction Levies to be Reduced from 1 November

The levies that HKEx collects on transactions in its markets on behalf of the SFC will be reduced when the [Securities and Futures \(Levy\) \(Amendment\) Order 2014](#) takes effect on 1 November 2014. Refer to the [HKEx news release](#) for details.

19. SFC Consultation Conclusions on Amendments to Professional Investor Regime

On 25 September, the SFC released [consultation conclusions](#) on proposed amendments to the professional investor regime.

The SFC has decided to proceed with the proposal not to allow intermediaries, when serving individual professional investors, to be exempt from the suitability requirement and other fundamental requirements that have a significant bearing on investor protection, under the Code of Conduct for Persons Licensed by or Registered with the SFC ("the Code").

Other features of the revised professional investor regime include:

- individual professional investors and corporate professional investors will continue be allowed to participate in private placement activities
- the minimum monetary threshold for qualifying as individual professional investors and corporate professional investors will be maintained at the current levels (i.e., \$8 million and \$40 million, respectively)
- principles-based criteria will replace the specific tests now used to assess whether exemptions to the Code requirements apply when intermediaries serve corporate professional investors.

The revised professional investors regime will become effective on 25 March 2016.

20. SFC Consultation on Client Agreement Requirements

The SFC has modified its proposals on client agreement requirements and now seeks to [further consult](#) the public on the wording of a proposed new clause to be incorporated into all client agreements as a contractual term. Comments are requested by **24 December 2014**.

The SFC will provide intermediaries with further guidance on description of actual services in their client agreements. It will proceed with the proposed amendments to the Code that provide that client agreements should not contain terms which are inconsistent with the obligations under the Code, or mis-describe the actual services to be provided to the client. All proposals relating to client agreement requirements will take effect on a date specified when the further public consultation of the proposed new clause has concluded.

21. SFC Report on SEHK's Performance in Regulating Listing Matters

The SFC has published a [report](#) on its annual review of the performance of the Stock Exchange of Hong Kong ("SEHK") in its regulation of listing matters during 2013.

The SFC is of the view that the operational procedures and decision-making processes reviewed were appropriate to enable SEHK to discharge its statutory obligations to maintain an orderly, informed and fair market during the review period. It has also identified certain areas for SEHK to continue to enhance its performance.

Taxation

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

Members may wish to be aware of the following matters:

- The [notice](#) on business registration.

- The Hong Kong SAR Government has recently indicated support for the **new global standard on automatic exchange of financial account information for tax purposes**.

Legislation & Other Initiatives

23. Anti-Money Laundering

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

- **Government notice 4940**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 4941**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- **Government notice 4942**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2014.
- **Government notice 4943**: 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 4944**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Libya) Regulation 2011.
- **US executive order 13224**: The list relating to "Blocking property and prohibiting transactions with persons who commit, threaten to commit or support terrorism".

For 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

24. 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.

25. Other Publications

(i) HKEx has published:

- Updated guidance on
 - logistical arrangements for publication of application proofs, post-hearing information packs and related materials on the HKEx website for listing applicants (**HKEx-GL57-13**)
 - confirmations required on the accountants' report, pro forma financial information and profit forecast in application proofs and subsequent draft listing documents (**HKEx-GL58-13**)
 - confirmations required on expert opinions in application proofs and subsequent draft listing documents (excluding report, opinion or statement issued by the reporting accountant, which is covered by Guidance Letter HKEx-GL58-13) (**HKEx-GL60-13**)
 - accelerated procedures for reviewing a Listing Division and Listing Committee's decision to return a listing application (**HKEx-GL61-13**)
- **report** on initial public offering applications, delisting and suspensions (as at 30 September)

- **HKEx Securities and Derivatives Markets Quarterly Report - Second Quarter 2014**

(ii) SFC has published:

- **Issue no. 30 of Takeovers Bulletin**, which clarifies the requirement for disclosure of dealings in relevant securities by associates during an offer period and remind practitioners to submit Takeovers Code-related announcements and documents to the SFC for comment prior to release
- Highlights of **first SFC supervisory briefing** for market intermediaries
- Speech by Carlson Tong, SFC's chairman, on **the conscience of companies**
- **Financial Review of the Securities Industry** for the half year ended 30 June 2014

(iii) **MNCs (multinational corporations) in China - Making the Right Moves** by KPMG in association with Silk Road Associates