



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

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@hkicpa.org.hk >. Click [here](#) for past issues.

Contents

Financial Reporting, Auditing and Ethics

New!

1. [New Technical Learning and Support Programme from January to February 2015](#)

Members' Handbook

2. [Handbook Update No. 161](#)

Financial Reporting

3. [Institute Comments on IASB Discussion Paper](#)

Ethics

4. [HKICPA Ethics Committee](#)
5. [Invitation to Comment on IESBA Consultation Paper](#)

International Meetings

6. [IASB](#)
7. [IFRS Interpretations Committee](#)
8. [IFRS ASAF](#)
9. [IAASB](#)
10. [IESBA](#)

Useful Resources

11. [Publications](#)

Comment Due Dates

Advocacy and Practice Development/ Member Support

Corporate Governance

12. [Results of the 2014 Best Corporate Governance Disclosure Awards](#)

Corporate Finance

13. [Institute Comments on Weighted Voting Rights](#)
14. [Consultation Conclusions on Reporting and Record Keeping Rules for OTC Derivatives](#)

Taxation

15. [Announcements by the Inland Revenue Department and Other Tax Matters](#)

Legislation & Other Initiatives

16. [Anti-Money Laundering](#)

Useful Resources

17. [Library Resources](#)
18. [Other Publications](#)

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Financial Reporting, Auditing and Ethics

New!

1. New Technical Learning and Support Programme from January to February 2015

The Institute will run a series of technical update evenings, workshops and seminars on accounting, auditing and ethics from January to February 2015 as follows:

- [Ethical Decision Making Workshop](#)
- [A Refresher Course on Current Auditing Standards](#)
- [HKFRS for Private Entities Workshops](#)

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 Update No. 161

[Update No. 161](#) contains consequential amendments to various HKFRSs.

The Institute has incorporated amendments applicable on 1 January 2014 (which were previously set out in an appendix to another standard) in the relevant HKFRS.

Financial Reporting

3. Institute Comments on IASB Discussion Paper

The Institute sent a [comment letter](#) to IASB on its Discussion Paper ("DP") of Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging.

The Institute supported the Board's effort to address the accounting for risk management of open portfolios. The Institute also supported the objective of providing more useful information about an entity's risk management activities. However, the Institute had concerns about the scope and the approach of the project.

Based on the comments received from constituents, there did not appear to be significant demand for fundamental change to macro hedging. Constituents were more interested in targeted improvements to the existing macro hedging requirements than a fundamental change.

The DP indicated that the proposed dynamic risk management approach was not limited to banks and not limited to interest rate risk, yet the DP was heavily focused on banks and interest rate risk. This focus made it difficult to assess the implications of the approach for other types of entities and other types of risk.

The Institute did not support an accounting model with a scope focused on dynamic risk management as explored in the DP. The Institute believed that approach would result in the revaluation of all net open risk positions which went far beyond the objective of the project which was to eliminate the misrepresentation resulting from the accounting mismatch between the fair value measurement of the hedging instruments and the amortized cost measurement of the hedged items. Revaluing all open net risk positions would not assist in understanding the performance of the entity and would introduce irrelevant and potentially significant volatility in net income which would not be decision-useful. In addition, applying the Portfolio Revaluation Approach ("PRA") would mean that unhedged exposures that were classified and measured in accordance with IFRS 9 *Financial Instruments* would be remeasured for changes in the managed risk. This could have the effect of over-riding the classification and measurement principles in IFRS 9.

The Institute believed that the objective of the PRA should be consistent with the objective of IFRS 9 hedge accounting, that is, to better

represent in the financial statements the effect of an entity's risk management activities and that a combination of the current accounting guidance in IFRS 9 and the new accounting for hedges of open portfolios would provide an entity with the necessary accounting alternatives to reflect its risk management strategies and objectives. The Institute believed it was worthwhile for the IASB to explore further in this area and make clear in the standard that how the PRA interacts with the general hedging model in IFRS 9 and when an entity could choose to use to apply the PRA.

Ethics

4. HKICPA Ethics Committee

The EC minutes of the meeting held on **27 June 2014** covered the following items:

- Revision to Statement 1.500 *Continuing Professional Development*
- Report on IESBA National Standard Setters Meeting held on 28 May 2014 in New York
- Report on IESBA outreach to Hong Kong and roundtable on responding to non-compliance with laws and regulations
- IESBA ED on Proposed Changes to Certain Provisions of the Code Addressing Non-assurance Services for Audit Clients

5. Invitation to Comment on IESBA Consultation Paper

The Institute has issued an **Invitation to Comment** on IFAC's IESBA Consultation Paper on Improving the Structure of the Code of Ethics for Professional Accountants ("Code"), with comments requested by **16 January 2015**.

The IESBA aims to seek input from stakeholders on approaches that could be taken to improve the clarity and usability of the Code, thereby facilitating its adoption, effective implementation, and consistent application.

Among the various matters on which the IESBA is consulting are:

- Restructuring the Code to more clearly distinguish requirements from guidance;
- Reorganizing the content of the Code, including rebranding the Code, or parts thereof, as international standards;
- Identifying responsibility for compliance with the Code in particular circumstances; and
- Simplifying the wording of the Code so that it can be more readily understood.

International Meetings

6. International Accounting Standards Board

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

- *IFRS for SMEs: Comprehensive Review 20122014*
- Insurance Contracts
- *Conceptual Framework*
- Disclosure Initiative
- Leases
- Emission Trading Schemes

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

7. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 11 November 2014, and discussed issues related to the following standards:

- 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 28 *Investments in Associates and Joint Ventures*
- IAS 32 *Financial Instruments: Presentation*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*

Click to view the IFRIC Update on the meeting of **11 November 2014**. The IFRS Interpretations Committee next meets in January 2015.

8. IFRS Accounting Standards Advisory Forum

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

9. International Auditing and Assurance Standards Board

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

10. International Ethics Standards Board for Accountants

The IESBA next meets in January 2015. Click [here](#) for details and previous meeting summary.

Useful Resources

11. Publications

- (i) **PwC** illustrative financial statements for 2014 year-end
- (ii) **PwC** update on latest developments in IFRS
- (iii) **KPMG update** on impacts of the new revenue standard on construction contracts
- (iv) **BDO** and **Zhonghui Anda** update on annual improvements to HKFRSs 2012-2014 cycle
- (v) PwC **guide** to illustrate possible approaches to apply IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Comment Due Dates

16 January 2015: IFAC's IESBA Consultation Paper on Improving the Structure of the Code of Ethics for Professional Accountants

Advocacy and Practice Development/ Member Support

Corporate Governance

12. Results of the 2014 Best Corporate Governance Disclosure Awards

The Best Corporate Governance Disclosure Awards 2014 ("Awards") was successfully concluded with the presentation ceremony held at a luncheon on 24 November. The guest of honour was Acting Secretary for Financial Services and the Treasury, Mr. James Lau.

The results of the 2014 Awards were announced at a [media briefing](#) held on 21 November. A diamond award was given out only to CLP Holdings Ltd., in the Hang Seng Index ("HSI") Category this year, as the judges considered that, while there were companies with a high standard of governance in other categories, there was still a gap between those categories and the best in the HSI. The Public Sector/ Not-for-profit Category saw a first-time winner and the sustainability and social responsibility ("SSR") reporting award, introduced in 2011, was a major focus this year and was expanded, for the first time, into different individual categories. One result of this was that a first-time winner, VTech Holdings, was given an SSR reporting award in the Non-HSI (Large Market Capitalization) Category. Our guest of honour was pleased to note that, this year, there were in all 22 awardees, which is the highest number ever.

The complete list of winners of the 2014 Awards is as follows:

HSI Category

Diamond – CLP Holdings Limited ("CLP")
Platinum – Hong Kong Exchanges and Clearing Limited
Platinum – HSBC Holdings plc
Special Mention – Hang Seng Bank Limited

Non-HSI (Large Market Capitalization) Category

Platinum – The Hongkong and Shanghai Hotels, Limited ("HSH")
Platinum – The Link Real Estate Investment Trust
Gold – Hysan Development Company Limited
Special Mention – Prudential plc

Non-HSI (Mid-to-small Market Capitalization) Category

Gold – SOCAM Development Limited
Gold – Transport International Holdings Limited
Special Mention – COSCO International Holdings Limited

H-share Companies and Other Mainland Enterprises Category

Platinum – Lenovo Group Limited
Gold – China Merchants Bank Co., Ltd.
Gold – China Minsheng Banking Corp., Ltd.
Special Mention – COSCO Pacific Limited

Public Sector/Not-for-profit Category

Gold – Airport Authority Hong Kong
Gold – Securities and Futures Commission
Special Mention – Hong Kong Productivity Council

Sustainability and Social Responsibility Reporting Award

Winner – CLP (HSI Category)
Winner – VTech Holdings Limited (Non-HSI (Large Market Capitalization) Category)
Special Mention – China Shenhua Energy Company Limited (HSI/ H-share Companies and Other Mainland Enterprises Category)
Special Mention – HSH (Non-HSI (Large Market Capitalization) Category)

The [judges' report](#) contains commentaries on the winners' corporate governance practices and disclosures, general observations by the judges and recent local and international corporate governance developments, as well as other background information.

Corporate Finance

13. Institute Comments on Weighted Voting Rights

As reported in [TechWatch no. 143](#) (item 18(ii)), Hong Kong Exchanges and Clearing ("HKEx") published a [concept paper](#) to seek views on whether governance structures that give certain persons voting power or other related rights disproportionate to their shareholding (weighted voting right ("WVR") structures) should be permissible for companies listed or seeking to list in Hong Kong.

As indicated in its [submission](#), the Institute does not object, in principle, to HKEx exploring the feasibility of permitting companies with WVR structures to be listed in Hong Kong. However, as the introduction of the WVR concept to the Hong Kong securities market could have a significant impact on, for example, investor protection and the ability of shareholders to seek redress, the Institute believes that all aspects and implications of the issue should be considered holistically, to reduce the risk of any inconsistencies or fragmented changes in the marketplace.

The Institute also considers that it would be useful to be able to evaluate the suitability of the WVR concept to Hong Kong with reference to the future direction and strategic positioning of the Hong Kong securities market, on a more macro basis. In the context of future consultations on this complex, technical subject, it would be helpful, therefore, if HKEx were to provide its medium- and long-term strategic outlook for the development of the Hong Kong securities market.

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

On 28 November, the Hong Kong Monetary Authority ("HKMA") and the Securities and Futures Commission ("SFC") published their [conclusions](#) on a joint public consultation on the mandatory reporting and related record keeping obligations under the new over-the-counter ("OTC") derivatives regime. These

obligations aim at enhancing financial market stability by increasing transparency in the OTC derivatives market and have been formulated in line with similar reform efforts in other major financial markets.

At the same time, further views are sought on three ancillary matters indicated below, with comments requested by **23 December 2014**.

- (i) the reporting of valuation transaction information (including the details of this requirement and the proposed implementation timetable)
- (ii) the designation of a list of jurisdictions for the purpose of the masking relief
- (iii) the list of stock markets, futures markets and clearing houses to be prescribed for the purposes of defining the scope of the OTC derivatives regime.

Taxation

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

Members may wish to be aware of the following matters:

- [The frequently asked questions](#) on stamp duty on transactions under Shanghai-Hong Kong Stock Connect
- [The Stamp Duty \(Amendment\) Bill](#), to implement the stamp duty waiver for the transfer of shares or units of exchange traded funds, will be introduced into the Legislative Council on 17 December.
- Suspended jail sentences for taxpayers convicted of
 - [falsely claiming deductions of expenses for self-education and approved charitable donations](#)
 - [false claims for additional dependent grandparent and additional dependent parent allowances](#)

- [Format specifications for supporting documents accompanying Profits Tax Return](#)
- [List of qualifying debt instruments as at 30 September 2014](#)

Legislation & Other Initiatives

16. Anti-Money Laundering

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

- [High-risk and non-cooperative jurisdictions](#): A reminder that in October, 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
- [Government notice 6193](#): An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- [Government notice 6194](#): An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- [Government notice 6195](#): An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Eritrea) Regulation.
- [Government notice 6196](#): An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Libya) Regulation 2011.

- [Government notice 6197](#): An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Somalia) Regulation.
- [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

17. 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.

18. Other Publications

- (i) HKEx has published:
 - Updated guidance on documentary requirements and administrative matters for collective investment schemes applications ([HKEx-GL79-14](#))
 - [Frequently asked questions series 29](#) – Shanghai-Hong Kong Stock Connect
 - [HKEx Securities and Derivatives Markets Quarterly Report – 3rd quarter 2014](#)
 - [Report](#) on initial public offering applications, delisting and suspensions (as at 28 November)

(ii) SFC has published:

- **Speech** by Ashley Alder, SFC's CEO, about the SFC's evolving approach to the supervision of firms and enforcement, and collaboration between regulators to regulate cross-border trading
- **Speech** by Mark Steward, SFC's executive director (enforcement), about the cross-pollination of influences on the law and regulation of Hong Kong's capital markets and financial services industry
- **Speech** by Alexa Lam, SFC's deputy CEO and executive director (investment products, International and China), on the development of Hong Kong's offshore RMB market as a leading centre

(iii) Other publications:

- **How to overcome obstacles with succession planning** by GAA Accounting
- **Are you getting all you can from your board of directors** by McKinsey & Company
- **Professional Accountancy Organizations: Serving SMEs is critical in times of economic crisis** by CPA Ireland
- **Global Management Accounting Principles** by Chartered Global Management Accountant
- **Corporate culture: The second ingredient in a world-class ethics and compliance program** by Deloitte
- **2014 Global Audit Committee Survey** by KPMG