



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](mailto: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 in March 2015

The Institute will hold a **seminar** on consultation conclusions on risk management and internal control: Review of the corporate governance code and corporate governance report on 5 March 2015.

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. 164 – 165

- (i) **Update No. 164** contains updated *Statement 1.102 Corporate Practices (Registration) Rules (Jan 2015)*.

The one-year transitional period for existing sole practising member corporate practices registered before 24 January 2014 to comply with the Professional Accountants (Amendment) Ordinance 2013 ended on 23 January 2015. Accordingly, Rule 31 of the Corporate Practices (Registration) Rules regarding the transitional arrangement is repealed, and the Corporate Practices (Registration) Rules (September 2004) and its schedule, the Model Memorandum and Articles of Association (September 2004), have become invalid as from 24 January 2015.

- (ii) **Update No. 165** contains the publication of *Disclosure Initiative* (amendments to HKAS 1 *Presentation of Financial Statements*); and *Investment Entities: Applying the Consolidation Exception* (amendments to HKFRS 10 *Consolidated Financial Statements*, HKFRS 12 *Disclosure of Interests in Other Entities* and HKAS 28 (2011) *Investments in Associates and Joint Ventures*).

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

The amendments can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.

### Financial Reporting

#### 3. Invitations to Comment on Consultation Papers

- (i) Exposure Draft on Amendments to Preface to Hong Kong Financial Reporting Standards

The Institute has issued an **Invitation to Comment** on Exposure Draft ("ED") on Amendments to Preface to Hong Kong Financial Reporting Standards, with comments requested by **6 March 2015**.

On 3 March 2014 the new Hong Kong Companies Ordinance ("CO") (Cap. 622) came into effect. Under section 380 and the Companies (Accounting Standards (Prescribed Body)) Regulation (Cap. 622C), the new CO now gives statutory backing to accounting standards by requiring Hong Kong incorporated companies to prepare their financial statements in accordance with accounting standards issued or specified by the Institute.

The Institute's Financial Reporting Standards Committee considered that it would be advisable to amend the Preface to HKFRSs to include specific reference to this new statutory backing in order to clarify the relevant accounting standards to be

applied under section 380(4)(b) by Hong Kong incorporated companies not eligible for the reporting exemption.

The proposed amendments provide explicit guidance on whether a Hong Kong incorporated company which is not eligible for the reporting exemption may choose to prepare its financial statements in accordance with a basis or standard of accounting other than HKFRSs.

- (ii) ED of Accounting Bulletin 6 *Guidance on the Requirements of Section 436 of the Hong Kong Companies Ordinance Cap.622 "Requirement in Connection with Publication of 'Specified Financial Statements' and 'Non-statutory Accounts'"*

The Institute has issued an [Invitation to Comment](#) on ED of Accounting Bulletin 6 ("AB 6") *Guidance on the Requirements of Section 436 of the Hong Kong Companies Ordinance Cap.622 "Requirement in Connection with Publication of 'Specified Financial Statements' and 'Non-statutory Accounts'"*, with comments requested by **16 March 2015**.

Section 436 of the new CO replaces the requirements of section 129C(1) and (3) of the predecessor Hong Kong Companies Ordinance, Cap.32, on the publication of a company's balance sheet. It also introduces new requirements on the publication of a company's 'non-statutory accounts'.

Essentially, section 436 requires that:

- When Hong Kong incorporated companies make their 'specified financial statements' available to others, they must always ensure that they are accompanied by the auditor's report on those financial statements; and
- When Hong Kong incorporated companies make any 'non-statutory accounts' available to others they must be accompanied by a statement that includes the information required by

section 436(3) and must not be accompanied by the auditor's report on its 'specified financial statements' for the same financial year.

Section 436 applies in relation to 'specified financial statements' and 'non-statutory accounts' for financial years beginning on or after 3 March 2014.

The Institute proposes to issue AB 6 to provide guidance on:

- What does section 436 require companies to do?
- When is section 436 applicable?
- Does section 436 apply to Summary Financial Reports prepared under sections 437-446 of CO?

The proposed guidance also contains illustrative examples of the section 436(3) statements to be attached to 'non-statutory accounts'.

#### 4. Institute Comments on IASB ED

The Institute [commented](#) on the IASB ED on *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*.

The Institute supports the proposal in the ED that the unit of account for investments in subsidiaries, joint ventures and associates is the investment as a whole.

However, the Institute thinks that the proposed amendments for the fair value measurement of quoted investments in subsidiaries, joint ventures or associates as the product of the quoted price multiplied by the quantity of financial instruments held would be inconsistent with the proposed unit of account being the investment as a whole. The Institute thinks that this proposal ignores adjustments that reflect the nature of the investment as a whole which may include, for example, premiums for control or having the right to board representation.

## Audit & Assurance

### 5. Invitation to Comment on IAASB ED

The Institute has issued an **Invitation to Comment** on IAASB ED on proposed ISA 800 (Revised) *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* and ISA 805 (Revised) *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* and conforming amendment to another ISA, with comments requested by **20 March 2015**.

Reporting on special purpose financial statements is linked to the recently issued new and revised Auditor Reporting standards, in particular ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* and new ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. As such, the IAASB has amended ISA 800 and ISA 805 to provide guidance on how the enhancements to the auditor's report would apply in audits of special purpose financial statements. These amendments are limited to auditor reporting and are not intended to substantively change the underlying premise of these engagements in accordance with the extant ISAs.

The IAASB is interested in (i) understanding respondents' views as to how the new and revised Auditor Reporting standards that will be required for complete sets of general purpose financial statements should affect auditor's reports on special purpose financial statements; and (ii) whether its proposals relating to the communication of key audit matters in the context of ISA 805 engagements are appropriate.

## International Meetings

### 6. International Accounting Standards Board

The IASB met on 20-22 January 2015, and discussed the following topics:

- Leases

- *Conceptual Framework*
- *IFRS for SMEs: Comprehensive Review 2012-2014*
- Disclosure Initiative
- Narrow-scope amendments to IAS 19 *Employee Benefits* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: Narrow-scope Amendment to IFRS 10 and IAS 28, issued September 2014-Interaction with paragraph 32 of IAS 28*
- Insurance Contracts
- Emissions Trading Schemes

Click to view the IASB Update on the meeting of **20-22 January**. The IASB next meets in February 2015.

### 7. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 27 January 2015, and discussed issues related to the following standards:

- IAS 12 *Income Taxes*
- IAS 16 *Property, Plant and Equipment*
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*
- IAS 24 *Related Party Disclosures*
- IAS 28 *Investments in Associates and Joint Ventures*
- IAS 32 *Financial Instruments: Presentation*
- IAS 39 *Financial Instruments: Recognition and Measurement*

- IAS 40 *Investment Property*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*
- IFRIC 21 *Levies*

Click to view the IFRIC Update on the meeting of [27 January](#). The IFRS Interpretations Committee next meets in March 2015.

## 8. IFRS Accounting Standards Advisory Forum

The IFRS ASAF next meets in March 2015. Click [here](#) for details and previous meeting summary.

## 9. International Auditing and Assurance Standards Board

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

## 10. International Ethics Standards Board for Accountants

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

## Useful Resources

### 11. Publications

- (i) [PwC](#) update on latest developments in IFRS
- (ii) [EY](#) guide on impairment requirements under IFRS 9 *Financial Instruments*
- (iii) [PwC](#) Q&A on implementation of IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities*
- (iv) [Deloitte](#) and [PwC](#) HKFRS illustrative financial statements for 2014 year ends

## Comment Due Dates

Comments to the Institute on the following EDs are due by:

**17 February 2015:** IASB ED on *Classification and Measurement of Share-based Payment Transactions (proposed amendments to IFRS 2)*

**6 March 2015:** IFAC's IESBA ED on proposed changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles

**6 March 2015:** ED on amendments to Preface to Hong Kong Financial Reporting Standards

**13 March 2015:** IASB ED of *Disclosure Initiative (proposed amendments to IAS 7)*

**16 March 2015:** ED of Accounting Bulletin 6 *Guidance on the Requirements of Section 436 of the Hong Kong Companies Ordinance Cap.622 "Requirement in Connection with Publication of 'Specified Financial Statements' and 'Non-statutory Accounts'"*

**20 March 2015:** IAASB ED on proposed ISA 800 (Revised) *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* and ISA 805 (Revised) *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* and conforming amendment to another ISA

## Advocacy and Practice Development/ Member Support

### Small and Medium Practitioners

#### 12. IFAC Global SMP Survey Identifies Key Challenges Facing SMPs Globally

As reported in [TechWatch no. 145](#) (item 12), the International Federation of Accountants ("IFAC") conducted its annual Global SMP Survey to understand the key issues and challenges that small and medium practitioners ("SMPs") and their small and medium enterprise ("SME") clients face, both on a regional and global scale. The findings can help IFAC and its member organizations better understand and address SMPs' needs.

With over 5,000 responses received from 135 countries, the [key findings from the 2014 IFAC Global SMP Survey](#) have been released. The findings showed that keeping up with regulations and standards and attracting new clients were the two greatest challenges facing SMPs worldwide, while rising costs and economic uncertainty were the top two challenges facing SME clients.

### Corporate Finance

#### 13. Proposed Volatility Control Mechanism for Securities and Derivatives and Closing Auction Session for Securities

Hong Kong Exchanges and Clearing ("HKEx") is inviting views on the proposed introduction of a Volatility Control Mechanism in its securities and derivatives markets and a Closing Auction Session in its securities market, with comments requested by **10 April 2015**.

HKEx explains that these proposed enhancements of Hong Kong markets' microstructure are designed to offer greater safeguards to our markets and improve market efficiency, with an aim to improving the global competitiveness of Hong Kong.

The [consultation paper](#) can be downloaded from the HKEx website. Further details of the proposals are highlighted in the [questions and answers](#) and the [presentation](#).

#### 14. SFC Allows Greater Flexibility for Authorized Funds in Dissemination of Prices and Net Asset Values

Following the publication of the [consultation conclusions](#) on the proposals to amend the Code on Unit Trusts and Mutual Funds ("the Code") in order to give public funds greater flexibility in determining the means for making public their offer and redemption prices, net asset values and notices of dealing suspension (reported in [TechWatch no. 147](#), item 19), the amendments to the Code were gazetted on 30 January 2015 and thereby take effect.

Updated [frequently asked questions](#) and [circular](#) provide further guidance to the industry on implementation of the proposals.

### Taxation

#### 15. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- [Reminder about business registration certificates](#)
- Notices on the notifications of the changes of postal addresses to:
  - [employers](#) for issuing the "Employer's Return of Remuneration and Pensions" (BIR56A) on 1 April 2015
  - [taxpayers](#) for issuing of the "Tax Return – Individuals" (BIR60) on 4 May 2015
- The Inland Revenue Department asks for cooperation regarding [the format of supporting documents filed with profits tax returns](#)
- [Notification](#) of revised forms for applying for certificate of resident status by

companies, partnerships, trusts, etc., on or after 1 February 2015, under double taxation agreements. The same forms apply whether the applicant is incorporated/ established in or outside of Hong Kong.

- A legislative council question on [the regulation of leases under the Stamp Duty \("SD"\) Ordinance](#), about the SD matters on leasing out sub-divided units, etc.
- [List of qualifying debt instruments as at 31 December 2014](#)
- [Stamping Circular No. 01/2015 on stock borrowing relief](#)

## Legislation & Other Initiatives

### 16. Companies Registry Updates

- (i) Annual statistics for 2014

The Companies Registry ("CR") released annual statistics for 2014 on 12 January 2015. Refer to the [press release](#) and the [statistics section](#) of the CR website for details.

- (ii) Execution of documents and deeds without a common seal

The new Companies Ordinance (Cap. 622) (the "new CO") simplifies the mode of execution of documents by companies. It has abolished the mandatory requirement for a company to have a common seal and has made the keeping and use of a common seal optional. This applies to companies incorporated in Hong Kong under the new CO or any former companies ordinances.

Refer to the CR's [letter](#) and the [Frequently Asked Questions - Common Seal](#) section at the CR's website for further details.

### 17. Appointments to the Standing Committee on Company Law Reform

The Standing Committee on Company Law Reform ("SCCLR") was set up in 1984. It advises the Financial Secretary on amendments

to the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and amendments to the Securities and Futures Ordinance on matters relating to corporate governance and shareholders' protection, as and when necessary.

The Financial Secretary has appointed four new members and re-appointed six incumbent members to the SCCLR for a term of two years, starting from 1 February 2015. Please refer to the [press release](#) for an updated membership list.

### 18. Anti-Money Laundering

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

- [Legal notice 10](#): The United Nations Sanctions (Somalia) (Amendment) Regulation 2015 has been published in the Gazette.
- [Legal notice 16](#): The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Amendment of Schedule 2) Notice 2015 has been published in the Gazette.
- [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) HKEx has published:

- A listing decision on whether a company, which is a controlling shareholder of a main board listing applicant at the time of the issuance of the listing document and will cease to be a controlling shareholder of the applicant shortly after listing, should be subject to a 12-month lock-up of its shares under Listing Rule 10.07(1) ([HKEx-LD85-15](#))
- Updated guidance on
  - disclosure of directors, supervisors and senior management section in listing documents ([HKEx-GL62-13](#))
  - disclosure in listing documents for initial public offering ("IPO") cases – information in property valuation report and market report ([HKEx-GL65-13](#))
  - disclosure requirements for IPO cases – disclosure of material changes in financial, operational and/ or trading position after trading record period ([HKEx-GL41-12](#))
  - simplification series – disclosure in listing documents for IPO cases – the "Summary and Highlights" section ([HKEx-GL27-12](#))
- [HKEx Securities and Derivatives Markets Quarterly Report – 4<sup>th</sup> quarter 2014](#)
- [Market statistics 2014](#) and [some highlights](#)
- [Report](#) on IPO applications, delisting and suspensions (as at 30 January)

(ii) SFC has published:

- A second report in risk-focused industry meeting series entitled [Asset Management: Looking Forward](#) and [some highlights](#)
- [Research Paper No. 56: A Review of the Global and Local Securities Markets in 2014](#)
- [Opening regulatory keynote speech](#), by Alexa Lam, SFC's deputy CEO, delivered at the Alternative Investment Management Association conference 2015

(iii) [IPO Handbook for Hong Kong 2015](#) by Asian Legal Business. It features the comprehensive requirements that a company would need to address during its listing journey, from pre-IPO preparation, proceeding with the IPO to post-listing compliance issues, with advices provided by experts who have been offering IPO related services.

(iv) Other publications:

- [Accountants Play Critical Role in Establishing Global Transparency](#) by AICPA Insights
- [Directors' Alert – Through the eyes of the board: Key governance issues for 2015](#) by Deloitte
- [COSO in the Cyber Age](#) by the Committee of Sponsoring Organizations of the Treadway Commission, in collaboration with Deloitte & Touche LLP
- [KPMG's 2015 Global Audit Committee Survey](#) by KPMG
- [Asia Pacific Economic Outlook Q1 2015](#) by Deloitte
- [18th Annual Global CEO Survey](#) by PwC
- [Transforming the business through social tools](#) by McKinsey & Company