



# TechWatch News at a glance

**Issue 149 • March 2015**

TechWatch updates you on technical developments in financial reporting, auditing, ethics, regulation and business. The Institute welcomes your comments, emailed to < [commentletters@hki CPA.org.hk](mailto:commentletters@hki CPA.org.hk) >. Click [here](#) for past issues.

## Contents

### Financial Reporting, Auditing and Ethics

#### New!

1. [New Technical Learning and Support Programme in April 2015](#)

#### Members' Handbook

2. [Handbook Update No. 166](#)

#### Financial Reporting

3. [The Institute's Financial Reporting Standards Committee](#)
4. [Invitation to Comment on IASB ED](#)
5. [Institute Comments on IASB DP](#)

#### Audit & Assurance

6. [The Institute's Auditing and Assurance Standards Committee](#)
7. [Invitation to Comment on ED PN](#)

#### Ethics

8. [Institute Comments on IESBA Consultation Paper](#)

#### International Meetings

9. [IASB](#)
10. [IFRS Interpretations Committee](#)
11. [IFRS ASAF](#)
12. [IAASB](#)
13. [IESBA](#)

#### Useful Resources

14. [Publications](#)

#### Comment Due Dates

### Advocacy and Practice Development/ Member Support

#### Corporate Finance

15. [Consultation Conclusions on Review of Listing Rules on Disclosure of Financial Information and Minor/Housekeeping Rule Amendments](#)
16. [SFC Obtained a Court Order to Wind Up a Hong Kong Listed Company](#)
17. [SFC Consultation on Principles of Responsible Ownership](#)

#### Taxation

18. [Annual Meeting with the Inland Revenue Department](#)
19. [Profits Tax Returns and Fair Value Accounting](#)
20. [Budget 2015-16](#)
21. [Announcements by the Inland Revenue Department](#)

#### Legislation & Other Initiatives

22. [Companies Registry Launches Full Scale Electronic Filing Service](#)
23. [COMPAG Issues 2013-14 Report](#)

#### Useful Resources

24. [Library Resources](#)
25. [Other Publications](#)

*Financial Reporting, Auditing and Ethics by:  
Christina Ng (Editor), Ben Lo, Katherine Leung*

*Advocacy and Practice Development by:  
Peter Tisman (Editor), Elena Chai, Wallace Wong*

*Member Support by:  
Mary Lam (Editor), Eddy Wong*

## Financial Reporting, Auditing and Ethics

### New!

#### 1. New Technical Learning and Support Programme in April 2015

A **seminar** on Guardian Role of Professionals in Upholding Ethical Governance (including a 30-minute tour visit of the exhibition hall of ICAC Headquarters and a 90-minute presentation) will be held on 1 April 2015.

### Members' Handbook

#### 2. Handbook Update No. 166

**Update No. 166** contains editorial and formatting changes to Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements and amendments to Practice Note ("PN") 810.2 (Revised) *The Duties of Auditor of an Insurer authorized under the Insurance Companies Ordinance*.

### Financial Reporting

#### 3. The Institute's Financial Reporting Standards Committee

The **minutes** for the FRSC meeting held on 17 December 2014 is now available and covers the following items:

- 2014 work plan status report
- Report on the IASB Accounting Standards Advisory Forum
- Report on various financial reporting events in Hong Kong
- Draft HKICPA submissions on various IASB Consultation Documents
- Report from the Working Group on the new Companies Ordinance application issues in relation to financial reporting

#### 4. Invitation to Comment on IASB ED

The Institute has issued an **Invitation to Comment** on IASB Exposure Draft ("ED") ED/2015/1 *Classification of Liabilities* (proposed amendments to IAS 1 *Presentation of Financial Statements*), and requested for comments to the Institute by **8 May 2015**.

The proposed amendments to IAS 1 aim to clarify the criteria for the classification of a liability as either current or non-current, particularly when it is coming up for renewal. In particular, the proposed amendments aim to:

- clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period; and
- make clear the link between the settlement of the liability and the outflow of resources from the entity.

#### 5. Institute Comments on IASB DP

The Institute **commented** on the IASB Discussion Paper ("DP") DP/2014/2 *Reporting the Financial Effects of Rate Regulation*.

The Institute welcomed the IASB's comprehensive project on rate-regulated activities and supported the IASB in considering the need for specific accounting guidance or requirements to account for the combination of rights and obligations that arise in defined rate regulations. The Institute supported the IASB's focus on a defined type of rate regulation as a first step of the research project to provide a common starting point before moving to the next stage of the project, which hopefully, would be to determine whether rights and obligations exist in the context of a broader regulated environment.

The Institute suggested the IASB conduct a full analysis of the rights and obligations arising from rate regulation and whether they can meet the definitions of assets and liabilities contained in the *Conceptual Framework*, which is currently under revision, before moving to the next stage of the project. Otherwise, the lack of conceptual

basis for the recognition of regulatory deferral accounts as assets or liabilities might lead to creating exceptions to IFRS.

If the IASB concluded that the regulatory assets and liabilities meet the definition of assets and liabilities, the Institute would support the approach of developing specific IFRS guidance or requirements for rate-regulated activities.

## Audit & Assurance

### 6. The Institute's Auditing and Assurance Standards Committee

The [minutes](#) for the AASC meeting held on 16 December 2014 is now available and covers the following items:

- 2014 work plan status report and update from Working Groups
- Update on the IAASB's projects
- PN 820 (Revised) *The Audit of Licensed Corporations and Associated Entities of Intermediaries*, PN 830 (Revised) *Reports by the Auditor under the Banking Ordinance* and PN 860.1 (Revised) *The Audit of Retirement Schemes*
- Revised PN 810.2 *The Duties of the Auditor of an Insurer authorized under the Insurance Companies Ordinance*

### 7. Invitation to Comment on ED PN

The Institute has issued an [Invitation to Comment](#) on ED Revised PN 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*, and requested for comments to the Institute by **27 March 2015**.

The Stock Exchange of Hong Kong Limited has published Listing Rule amendments relating to continuing connected transactions in March 2014. These amendments were made to implement proposals in the consultation conclusions on "Review of Connected Transaction Rules" and "Proposed Changes to

Align the Definitions of Connected Person and Associate in the Listing Rules". These amendments came into effect on 1 July 2014.

PN 740 has been revised as a result of these amendments to the Listing Rules. There is no material change in the reporting requirements except for the changes in the reference numbers and wordings of the revised Main Board Listing Rules and GEM Listing Rules.

## Ethics

### 8. Institute Comments on IESBA Consultation Paper

The Institute [commented](#) on IESBA Consultation Paper on Improving the Structure of the Code of Ethics for Professional Accountants ("Code").

The Institute has concerns on the example in paragraph 33 of the Consultation Paper on who may be the "responsible individual within a firm for taking appropriate action in accordance with the requirements of the Code". The Institute considers that every member within a firm have specific contributions to the firm's compliance with the Code. The proposed drafting may create an impression that the personnel quoted in the example would be required to bear the responsibility for breaches of the Code that may be committed by other members of the firm, which the Institute considers to be inappropriate. The Institute recommended the IESBA to reconsider the proposal with caution to ensure that fair and equitable outcomes would be achieved.

In relation to the timeline of the project, the Institute noted that there is a strong demand from practitioners as well as regulators for IESBA to complete this project promptly. The proposed effective date of the restructured Code by early 2018 (at the earliest) would not be helpful to practitioners and may undermine the perceived effectiveness in standard setting by IESBA. The Institute urged the IESBA to prioritize the completion of this project over the completion of other projects.

## International Meetings

### 9. International Accounting Standards Board

The IASB met on 18-20 February 2015, and discussed the following topics:

- Comprehensive review of the *IFRS for SMEs*
- Rate-regulated Activities
- Revenue from Contracts with Customers – Issues emerging from Transition Resource Group for Revenue Recognition discussions
- Insurance Contracts
- Disclosure Initiative – Principles of Disclosure
- Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging
- Leases
- IFRS implementation issues
- Post-implementation Review of IFRS 3 *Business Combinations*

Click to view the [IASB Update](#) for this meeting. The IASB next meets on 16-20 March 2015.

### 10. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets on 24-25 March 2015. Click [here](#) for details.

### 11. IFRS Accounting Standards Advisory Forum

The IFRS ASAF next meets on 26-27 March 2015. Click [here](#) for details of the March meeting and the meeting summary for the December 2014 meeting.

### 12. International Auditing and Assurance Standards Board

The IAASB next meets on 16-20 March 2015. Click [here](#) for details of the March meeting and the meeting summary for the January meeting.

### 13. International Ethics Standards Board for Accountants

The IESBA next meets on 13-15 April 2015. Click [here](#) for details of the April meeting and the meeting summary for the January meeting.

## Useful Resources

### 14. Publications

- (i) [PwC update](#) on tips for impairment review of non-financial assets
- (ii) [EY IFRS Update](#) on standards and interpretations in issue at 31 December 2014
- (iii) BDO update on HKFRSs which are [mandatory](#) and [available for early adoption](#) for 2014 year ends
- (iv) [PwC FAQ](#) on how hedge accounting could be applied in practice
- (v) Zhonghui Anda updates on [disclosure initiative](#) and [applying the consolidation exception for investment entities](#)

## Comment Due Dates

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

**13 March 2015:** IASB ED/2014/6 *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*

**27 March 2015:** ED Revised PN 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*

**8 May 2015:** IASB ED/2015/1 *Classification of Liabilities* (proposed amendments to IAS 1)

## Advocacy and Practice Development/ Member Support

### Corporate Finance

#### 15. Consultation Conclusions on Review of Listing Rules on Disclosure of Financial Information and Minor/Housekeeping Rule Amendments

On 6 February 2015, Hong Kong Exchanges and Clearing ("HKEx") published **consultation conclusions** related to review of listing rules on disclosure of financial information with reference to the new Companies Ordinance (Cap. 622) ("new CO") and Hong Kong Financial Reporting Standards ("HKFRS") and proposed minor/housekeeping rule amendments. **TechWatch no. 143** (item 18(i)) and **TechWatch no. 145** (item 13) contain further details about the consultation and the Institute's submission, respectively.

Amendments relating to the disclosure of financial information, which apply to accounting periods ending on or after 31 December 2015, include:

- aligning the requirements for disclosure of financial information in the listing rules with reference to the disclosure provisions in the new CO;
- streamlining the disclosure requirements and removing duplications with HKFRS;
- introducing new requirements for listed companies that revise their published financial reports or results announcements (include prior period adjustments due to correction of material errors).

Amendments unrelated to the disclosure of financial information, which will come into effect on 1 April 2015, include:

- consequential changes due to the enactment of the new CO;

- minor and housekeeping amendments which involve no change in policy direction.

The amendments to the [Main Board Listing Rules](#) and [GEM Listing Rules](#) and related [Frequently Asked Questions](#) ("FAQ") can be downloaded from the HKEx website.

## 16. SFC Obtained a Court Order to Wind Up a Hong Kong Listed Company

On 26 February, the Securities and Futures Commission ("SFC") obtained a court order to wind up China Metal Recycling (Holdings) Limited under section 212 of the Securities and Futures Ordinance for the purpose of protecting the company's minority shareholders, creditors and the investing public. This is the first time that the SFC obtained a court order to wind up a Hong Kong-listed company, the affairs of which were alleged to involve a highly complex, sophisticated and dishonest scheme spanning Hong Kong, Macau, the Mainland and the United States.

Read the SFC [press release](#) for details.

## 17. SFC Consultation on Principles of Responsible Ownership

The SFC has **launched** a three-month [consultation on proposed Principles of Responsible Ownership](#), which provide guidance (in the form of the principles) on how investors should fulfil their ownership responsibilities in relation to their investment in a listed company. Comments are requested by **2 June 2015**.

The seven proposed principles, which are intended to be non-binding and voluntary, and to operate on a "comply-or-explain" basis, ask investors to:

- establish and report to their stakeholders their policies for discharging their ownership responsibilities
- monitor and engage with their investee companies
- establish clear policies on when to escalate their engagement activities

- have clear policies on voting
- be willing to act collectively with other investors when appropriate
- report to their stakeholders on how they have discharged their ownership responsibilities
- have policies on managing conflicts of interests (when investing on behalf of clients)

Members who wish to submit views on this consultation via the Institute, please send them to [<commentletters@hkicpa.org.hk>](mailto:commentletters@hkicpa.org.hk) before **15 May 2015**.

## Taxation

### 18. 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 6 February 2015. At the meeting, the IRD confirmed the due dates for lodging profits tax returns for the year of assessment 2014-15. These are highlighted for members' attention:

Accounting date	Extended due date	Further extended due date (if opting for e-filing)
"N" Code	4-May-15 (no extension)	18-May-15
"D" Code	17-Aug-15	31-Aug-15
"M" Code	16-Nov-15	30-Nov-15
"M" Code (current year loss cases)	1-Feb-16	1-Feb-16 (same as paper returns)

## 19. Profits Tax Returns and Fair Value Accounting

The IRD has **extended** the interim administrative measure, introduced last year following the case of *Nice Cheer Investment Ltd v CIR*. IRD will accept assessable profits computed on a fair value basis in 2014/15 returns pending a review of the situation.

## 20. Budget 2015-16

The financial secretary delivered the **2015-16 budget speech** on 25 February. In responding to the media, the Institute commented positively that the budget had raised important long-term issues, while the Institute also called for more specifics and clarity. Click for a **summary** of the tax measures in the budget and the **Institute's response** (and the Institute's **budget proposals**).

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, Chinese University's Simon Lee, and the taxation faculty budget subcommittee convenor, Curtis Ng. Taxation faculty executive committee chair, Florence Chan, was the moderator.

## 21. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- **Stamp duty waiver for the transfer of shares or units of exchange traded funds**
- **The second protocol to the tax agreement with Vietnam** come into force

### Legislation & Other Initiatives

## 22. Companies Registry Launches Full Scale Electronic Filing Service

The Companies Registry ("CR") launched a full scale electronic filing service @ **e-Registry** on 3 March 2015 to cover 84 specified forms for filing

with the CR. A list of all specified forms is available at the **CR's website**.

With immediate effect, users may submit all forms specified under the new CO and the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) and related documents to the CR for registration through the e-Registry portal round the clock.

Read the CR **external circular no. 1/2015** for details.

## 23. COMPAG Issues 2013-14 Report

The competition policy advisory group has issued its **2013-14 annual report**, which includes:

- brief introduction of the Competition Ordinance and sets out the latest developments on the implementation of the Ordinance;
- summary of cases concluded in 2013-14 and the current position of outstanding cases for competition-related complaints.

### 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:

- **FAQ series 31** – Questions relating to review of listing rules on disclosure of financial information with reference to the new CO and HKFRS and proposed minor/housekeeping rule amendments
- HKEx Chief Executive discusses **the positioning of Hong Kong's financial markets and HKEx's role**

- **HKEx Cash Market Transaction Survey 2013/14** and the **press release** which highlights some key findings
- **Report** on initial public offering applications, delisting and suspensions (as at 27 February)

(ii) SFC has published:

- **3<sup>rd</sup> quarterly report**, which summarizes the SFC's key developments from October to December 2014

(iii) Other publications:

- **Beware of the risk of being liable as a de facto director** by ONC Lawyers
- **Audit Committee Resource Guide 2015** by Deloitte
- **The link between sustainability and finance** by Economia
- **Global succession survey unveils accounting firms have work to do** by GAA (Global Accounting Alliance) Accounting
- **China Outlook 2015** by KPMG