



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

Technical Learning and Support

1. Joint HKICPA and IFRS Foundation IFRS Conference 2015

The 2-day IFRS Conference was successfully held on 12-13 October. More than 230 participants from around the world and Hong Kong attended the IFRS.

The Institute's President, Dennis Ho, gave the [welcome remarks](#), Carlson Tong, Chairman of the Securities and Futures Commission, gave the [keynote address](#), and Hans Hoogervorst, Chairman of the IASB, spoke about the future of financial reporting.

Speakers from the IASB leading Hong Kong and regional CFOs, and IFRS experts provided insight on upcoming standards and discussed the implementation of recently issued standards.

Click to see [photos](#). The videos of speeches will be available soon.

2. Technical Learning and Support Programme in November and December 2015

The Institute will run a series of technical update evenings ("TUE"), workshops and seminars on accounting and auditing in November and December 2015:

- [Industry Update Relating to Investment Funds](#)
- [HKFRS for Private Entities Workshops](#)
- [A Refresher Course on Current Auditing Standards](#)
- [TUE – Accounting for Share-Based Payment Awards Under IFRS/HKFRS 2](#)

To secure a seat, please register early by completing the registration forms (accessible by clicking on the above event titles).

Financial Reporting

3. Recent Invitations to Comment on IASB Consultation Documents

- (i) IASB DI/2015/1 *Uncertainty over Income Tax Treatments*

The Institute issued an [Invitation to Comment](#) on the IASB Draft IFRIC Interpretation on *Uncertainty over Income Tax Treatments* and requested for comments by **11 December 2015**.

IAS 12 *Income Taxes* provides requirements on the recognition and measurement of current or deferred tax liabilities or assets, but does not provide specific guidance for how uncertainty about a tax treatment should be reflected in the accounting for income tax. Consequently, the Interpretations Committee proposes an Interpretation to provide that guidance.

- (ii) IASB DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

The Institute has issued an [Invitation to Comment](#) on the IASB Draft IFRIC Interpretation on *Foreign Currency Transactions and Advance Consideration* and requested for comments by **11 December 2015**.

IAS 21 *The Effects of Changes in Foreign Exchange Rates* sets out requirements about which exchange rate to use when recording a foreign currency transaction on initial recognition in the entity's functional currency. However, the Interpretations Committee observed diversity in practice in circumstances where consideration was received or paid in advance of the recognition of the related asset, expense or income. Consequently, the Interpretations Committee proposes an Interpretation to provide guidance in these specific circumstances.

4. Institute Comments on IASB EDs

- (i) IASB ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan*

The Institute **commented** on the IASB Exposure Draft ("ED") on *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan*.

The Institute supports the IASB's initiative to clarify the application of the requirements in relation to the availability of refunds from a defined benefit plan under IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The Institute also supports the accounting treatment under IAS 19 *Employee Benefits* for issues related to the remeasurement of the net defined benefit liability (asset) in the event of a plan amendment, curtailment or settlement.

In addition, the Institute noted that the IASB has not addressed the inconsistency between IAS 19 and IAS 34 *Interim Financial Reporting*. This relates to the question of when an entity should remeasure the net defined benefit (asset), in particular, when 'significant market fluctuations' occur during the reporting period. In view of the potential diversity in practice, the Institute suggests that the IASB reconsiders this issue and provides clarification as soon as possible.

- (ii) IASB ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28*

The Institute **commented** on IASB ED on *Effective Date of Amendments to IFRS 10 and IAS 28*.

As stated in the Institute's submission on the original proposals (i.e. ED/2012/6), the Institute did not consider that this amendment was an improvement to IFRSs as it did not comprehensively address all concerns relating to the equity method.

Instead, the Institute considers the conflict between IFRS 10 *Consolidated Financial Statements* and the equity method under IAS 28 *Investments in Associates and Joint Ventures* should be dealt with as part of the IASB's fundamental review of the equity method of accounting so that conceptual concerns (i.e. the principles underlying the application of the equity method) can be addressed comprehensively rather than on a piecemeal basis.

Therefore, the Institute is supportive of the proposal in ED/2015/7 to indefinitely defer the effective date of the amendments *Sale or Contribution of Assets between an Investor or its Associate or Joint Venture* (amendments to IFRS 10 and IAS 28) while work continues on this more comprehensive review.

Notwithstanding the Institute's support for the proposal in ED/2015/7, the Institute is concerned that indefinitely deferring the effective date of the amendments after following a thorough due process would impair the credibility of the IASB's standard-setting process. The Institute therefore requests that the IASB reviews its due process to see whether anything could be done to minimize the risk that similar situations occur in future.

Audit & Assurance

5. The Institute's Auditing and Assurance Standards Committee Meeting Minutes

The **minutes** for the AASC meeting held on 14 September 2015 is now available and covers the following key items:

- Early Adoption of the new Auditor Reporting Standards;
- Practice Note ("PN") 730 (Revised) *Guidance for Auditors Regarding Preliminary Announcements of Annual Results*;
- IAASB Staff Audit Practice Alert *Responsibilities of the Engagement Partner*

in Circumstances when the Engagement Partner is not located where the majority of the Audit Work is Performed;

- The issue on Data Privacy and Long Service Payment/Severance Payment; and
- The Change of Name of 'Television and Entertainment Licensing Authority' in PN 852 *Review of Lottery Accounts*.

6. Institute Comments on IAASB ED

The Institute **commented** on IAASB ED on *Proposed Amendments to the IAASB's International Standards ("ISAs") – Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations ("NOCLAR")*.

The Institute appreciates the efforts of the IAASB in revising the various ISAs. However, the Institute is of the view that the proposed limited amendments do not clarify, and do not emphasize, to the same extent as the NOCLAR proposals as issued by the International Ethics Standards Board for Accountants.

Due to the different drafting conventions of the IESBA Code of Ethics for Professional Accountants ("COE") and ISAs, some paragraphs in the proposed Section 225 of COE appear similar to those in the 'Requirements' or the 'Application and Other Explanatory Material' sections of ISA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*. This may create confusion to auditors who may be required to comply with both standards.

In addition, some guidance appear to be inconsistent as currently drafted: e.g. paragraph 225.12 of COE requires the auditor to discuss with the appropriate level of management and paragraph 19 of ISA 250 only requires discussion with management; the guidance as to which level of management to discuss with is inconsistent as described in paragraph 225.16 of COE and paragraph 24 of ISA 250.

International Meetings

7. International Accounting Standards Board

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

- Leases
- Pollutant pricing mechanisms
- Update on Impairment Transition Group
- Financial Instruments with Characteristics of Equity
- Disclosure Initiative
- Insurance Contracts
- Different effective dates of IFRS 9 and the new Insurance Contracts
- IFRS Implementation Issues
- Goodwill and Impairment
- Definition of a business

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

8. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 10-11 November 2015 and discussed the following key standards:

- IAS 16 *Property, Plant and Equipment*
- IAS 28 *Investments in Associates and Joint Ventures*
- IAS 32 *Financial Instruments: Presentation*
- IAS 38 *Intangible Assets*
- IFRS 9 *Financial Instruments*

- IFRIC 12 *Service Concession Arrangements*

The IFRS Interpretations Committee next meets on 12-13 January 2016. Click [here](#) for details of the November meeting.

9. IASB Accounting Standards Advisory Forum

The IASB ASAF next meets on **7-8 December 2015**.

10. International Auditing and Assurance Standards Board

The IAASB next meets on **7-11 December 2015**.

11. International Ethics Standards Board for Accountants

The IESBA next meets on **30 November – 4 December 2015**.

Useful Resources

12. Publications

KPMG published:

- an **illustrative financial statements** and **disclosure checklist** for 2015 year ends; and
- a **guide** to provide an overview of IFRS.

Deloitte published a **guide** that assists in applying materiality to financial statements.

Comment Due Dates

Comments to the Institute on the following consultation documents are due by:

30 November 2015: IASB Request for Views *2015 Agenda Consultation*

11 December 2015: IASB DI/2015/1 *Uncertainty over Income Tax Treatments*

11 December 2015: IASB DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

Advocacy and Practice Development/ Member Support

Small & Medium Practitioners

13. IFAC Companion Manual: Updated to Include the Guide to Compilation Engagements

Following the release of a [new guidance](#) to compilation engagements (reported in [TechWatch no. 156](#) (item 13)), the International Federation of Accountants ("IFAC") has recently released an [updated Companion Manual](#) to provide member bodies and other professional accountancy organizations with guidance on how they can make the best use of the following four implementation guides produced by IFAC's SMP Committee, namely:

- [Guide to Quality Control for Small- and Medium-Sized Practices](#)
- [Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities](#)
- [Guide to Review Engagements](#)
- [Guide to Compilation Engagements](#)

The four guides provide non-authoritative guidance on applying ISQC 1, ISA, ISRE 2400 (Revised) and ISRS 4410 (Revised) to help practitioners apply the standards consistently and effectively when developing their quality control systems and performing audit, review, and compilation engagements for small- and medium-sized entities.

14. IFAC Global SMP Survey

Small and medium practitioners ("SMPs") are encouraged to participate in the [2015 IFAC Global SMP Survey](#), which should take less than 10 minutes to complete and will be closed on 30 November 2015.

This survey helps IFAC and its member bodies better understand and serve SMP constituents,

raises awareness of SMPs' needs and challenges and the role and value of SMPs globally. Responses will contribute to global insights for the profession, which will help the Institute and IFAC better direct resources to support SMPs and their clients.

Professional Accountants in Business

15. Competition Ordinance – Practical Compliance Tool for Small and Medium Sized Enterprises

The Competition Commission has published a practical toolkit entitled, [How to comply with the Competition Ordinance – Practical Compliance Tools for Small and Medium Sized Enterprises](#), which features useful checklists and practical measures to assist businesses, especially SMEs, in reviewing their business practices and developing a compliance strategy that best suits their needs.

Corporate Finance

16. SFC Launches Pilot Initiatives to Enhance Fund Authorization Process

On 9 October, the Securities and Futures Commission ("SFC") announced the launch of new initiatives to further enhance the authorization process for new fund applications ("Revamped Process") and for new Mandatory Provident Funds and Pooled Retirement Fund products. Both initiatives were implemented on 9 November for a six-month pilot period after which refinements may be made before the initiatives will be adopted as policy.

More details are contained in the circular entitled [Launch of pilot revamped fund authorization process](#) and the [press release](#).

Restructuring and Insolvency

17. Improvements to Corporate Insolvency Law

[The Companies \(Winding Up and Miscellaneous Provisions\)\(Amendment\) Bill 2015](#), which aims to improve and modernize Hong Kong's corporate winding-up regime, was introduced into the Legislative Council on

14 October and a Bills Committee has been formed to study the bill. The Institute's Restructuring and Insolvency Faculty Executive Committee will be making a submission on the bill.

Taxation

18. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- **The revised forms** for applying Certificate of Hong Kong Resident Status in view of the termination of the issue of referral letter entitled 《關於請香港特別行政區稅務主管當局出具居民證明的函》
- **The tax treaty between Hong Kong and South Africa** has come into force
- **Inland Revenue (Amendment) (No.3) Bill passed:** The Inland Revenue (Amendment) (No.3) Bill, which aims to enhance the tax appeal mechanism and improve the efficiency and effectiveness of the Board of Review (Inland Revenue Ordinance), was passed by the Legislative Council on 4 November – with **accompanying speech** by the Secretary for Financial Services and the Treasury (Chinese versions only) (See also **TechWatch Issue 153**).
- **The government's commitment** to timely implement the Automatic Exchange of Financial Account Information in Tax Matters in Hong Kong
- **A notification** of the changes of postal addresses to taxpayers
- **A misleading WhatsApp message** about issuance of refund cheques by Inland Revenue Department
- **List of qualifying debt instruments as at 30 September 2015**

Legislation & Other Initiatives

19. Anti-Money Laundering Notices

Members may wish to note the following notices and publications in relation to AML/CFT:

- **Government notice 7701:** An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **High-risk and non-cooperative jurisdictions:** 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.
 - FATF publication, the **Emerging Terrorist Financing Risks** report provides an overview of the various financing mechanisms and financial management practices used by terrorists. It explores the emerging threats and vulnerabilities posed by foreign terrorist fighters fundraising through social media, new payment products and services, and the exploitation of natural resources.
- **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/CFT, 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

20. 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.

21. Other Publications

(i) HKEx has published:

- Presentation materials:
 - [Listing Compliance Update](#)
< [view webcast](#) >
 - [Listing enforcement strategy, current theme and case study](#)
< [view webcast](#) >
 - Integrity Management and Corruption Prevention
< [view webcast](#) >
 - [Updates on the new Corporate Governance Code on Internal Controls and the new ESG Reporting Guide](#) (Simplified Chinese version only)
- Updated guidance on unrealized fair value gains on valuation of biological assets for the purpose of trading record and profit requirements under Rule 8.05(1)(a); disclosure requirements for IPO applicants with biological assets and due diligence work expected to be performed by sponsor and other professional advisers on biological assets (October 2015) ([HKEx-GL46-12](#))

- [Report](#) on initial public offering applications, delisting and suspensions (as at 30 October)
- (ii) SFC has published:
 - [Speech](#) by Carlson Tong, chairman, on the development of financial reporting standards over the years and the importance of the auditing profession in the current regulatory environment
 - [Speech](#) by Ashley Alder, CEO, on over-the-counter ("OTC") derivatives, the progress on Hong Kong's OTC reforms and cross-border regulation
 - [Speech](#) by Ashley Alder, CEO, on Shanghai-Hong Kong Stock Connect and some of the themes the SFC is pursuing to further develop Hong Kong's role as China's international financial centre
- (iii) [Process Review Panel Report 2014-15 for the SFC](#) shows the panel's observations and recommendations made during the review of 58 cases in 2014-15 in various areas of the SFC's work
- (iv) [Companies Registry Trading Fund 2014-15 annual report](#)
- (v) Other publications:
 - [Risk Management – Looking at the New Normal in Hong Kong](#), a survey report by the Hong Kong Institute of Chartered Secretaries and KPMG
 - [Grow fast or die slow: The double-edged sword of M&A](#), McKinsey & Company
 - [Global Annual Review 2015](#), PwC
 - [The last 30 years of global economic history are about to go out the window](#), Quartz