



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.

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Financial Reporting, Auditing and Ethics

Technical Learning and Support

1. Technical Learning and Support Programme in February and March 2016

The Institute will run a series of technical update evenings, workshops and seminars on accounting and ethics in February and March 2016:

- **Seminar on AATB 1 - Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting**
- **Overview of new and revised HKFRS for 2015**
- **Hong Kong Financial Reporting Standard for Private Entities and the 2015 amendments**
- **The Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (Revised 2014)**
- **ICAC Workshop on Ethical Decision Making**

Register early to secure a seat. Click on the above event titles for the registration forms.

Members' Handbook

2. Handbook Updates No. 179-180

- **Update No. 179** relates to the *Effective Date of Amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures*, which defers/removes the effective date of the amendments in *Sale or Contribution of Assets between an Investor or its Associate or Joint Venture* that the Institute issued on 7 October 2014. Early application continues to be permitted.

- **Update No. 180** contains revised HKSAs as a result of the Disclosure project (Addressing Disclosures in the Audit of Financial Statements). These changes are effective for audits of financial statements for periods ending on or after 15 December 2016.

Financial Reporting

3. Institute Comments on IASB Consultation Documents

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

The Institute **commented** on the IASB's Draft IFRIC Interpretation DI/2015/1 and broadly supports it.

However, the Institute has concerns as to whether DI/2015/1 goes far enough in certain respects. In this regard, the Institute provides recommendations to refine the scope of DI/2015/1, to clarify the recognition threshold for uncertain tax positions and to clarify the application of IAS 10 *Events after the Reporting Period* as to whether changes in facts and circumstances relating to uncertain tax positions that occur between the end of the reporting period and the date when the financial statements are authorized for issue should be regarded as adjusting or non-adjusting events.

In addition, the Institute has serious concerns about the guidance in paragraph 21 of DI/2015/1, which implies that measurement uncertainty should be regarded as a form of contingent liability. The Institute does not consider that paragraph 21 is consistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and considers instead that significant measurement uncertainty relating to uncertain tax positions should be disclosed under IAS 1.125.

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

The Institute **commented** on the IASB's Draft IFRIC Interpretation DI/2015/2 and welcomes the proposed guidance on which exchange rate should be used to report foreign currency transactions when payment is made or received in advance. The Institute considers that DI/2015/2 would remove the diversity in accounting for foreign currency transactions that involve advance consideration, provided that the Interpretation is sufficiently clear about the distinction between 'monetary' and 'non-monetary' in such cases.

(iii) IASB Draft Request for Views *2015 Agenda Consultation*

The Institute **commented** on the IASB's Request for Views *2015 Agenda Consultation* and believes that such consultation would help the IASB identify the needs of the IFRS users and strengthen the transparency of the IASB's agenda setting process.

In terms of the current workplan, the Institute considers that the IASB's main priority is to issue the standard on Leases (the standard was subsequently issued on 13 January 2016) and complete the Insurance Contracts project after undertaking comprehensive effects analysis. The two cross-cutting projects, Conceptual Framework and Disclosure Initiative, should also be the IASB's high priorities as they are fundamental to the preparation of financial statements.

As for the IASB's research activities, the Institute considers that the IASB should prioritize the following projects as they are either highly integral to the Conceptual Framework or the Disclosure Initiative, or they require urgent and fundamental review of the relevant standards:

- Financial instruments with characteristics of equity;
- Equity method;
- Disclosure initiative – Principle of disclosure; and

- Primary Financial Statements.

Other research projects that should be the IASB's high priority, after taking into account the urgency and importance of the issues involved, include:

- Goodwill and impairment;
- Business combinations under common control;
- Definition of a business; and
- Provisions, contingent liabilities and contingent assets.

Finally, the Institute would like the IASB to consider a short-term project that assesses the usefulness of the exemption criteria for preparing consolidated financial statements under IFRS 10 *Consolidated Financial Statements*. The Institute believes that the condition set out in paragraph 4(a)(iv) of IFRS 10 is inconsistent with the thinking reflected in paragraph 3.24 of the IASB's Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* in relation to the boundary of a reporting entity. This could hinder the use of IFRS in jurisdictions where IFRS is not mandatory to be used for preparing statutory financial statements. The Institute, therefore, requests that the IASB adds this project to its workplan and, considers whether the condition in paragraph 4(a)(iv) of IFRS 10 should be deleted entirely.

Ethics

4. Invitations to Comment on IESBA EDs

- (i) IFAC's IESBA Exposure Draft ("ED") *Improving the Structure of the Code of Ethics for Professional Accountants ("Code") – Phase 1*

The Institute has issued an **Invitation to Comment** on the IESBA's ED *Improving the Structure of the Code – Phase 1* and requested for comments to the Institute by **14 March 2016**.

This ED represents the first application of the proposed new structure and drafting conventions for the Code, covering both a number of the provisions of the Code dealing with its general application and selected sections addressing professional accountants in public practice. In addition to the use of clearer language, key features in this ED include:

- Requirements clearly distinguished from application material;
- Increased clarity of responsibility for compliance with the Code's requirements;
- A reorganization of the content of the Code; and
- A new Guide to the Code.

(ii) IFAC's IESBA ED *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*

The Institute has issued an **Invitation to Comment** on the IESBA's ED *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1* and requested for comments to the Institute by **19 February 2016**.

The proposals respond to a public interest need to clarify the meaning of safeguards and to make sure that they directly relate to identified threats to compliance with the fundamental principles of the Code.

Key enhancements proposed in the ED include:

- More robust and prominent requirements related to the application of the conceptual framework, including a required overall assessment of the judgments made and conclusions reached;
- A clearer and more robust description of the concept of safeguards, and clarified and streamlined examples of safeguards; and

- New guidance regarding the application of the concept of a 'reasonable and informed third party' that is essential to properly applying the conceptual framework.

International Meetings

5. International Accounting Standards Board

The IASB met on 19-20 January 2016 and discussed the following topics:

- Insurance Contracts;
- Discount Rates Research;
- Fair Value Measurement; and
- Revenue from Contracts with Customers.

Click to view the **IASB Update** for this meeting. The IASB next meets on 12-19 February 2016.

6. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 12 January 2016 and discussed the following key standards:

- IAS 12 *Income Taxes*;
- IAS 32 *Financial Instruments: Presentation*;
- IAS 39 *Financial Instruments: Recognition and Measurement*;
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- IFRS 9 *Financial Instruments*;
- IFRS 11 *Joint Arrangements*; and
- IFRIC 12 *Service Concession Arrangements*.

Click to view the **IFRIC Update** for this meeting. The IFRS Interpretations Committee next meets on 22-23 March 2016.

7. IASB Accounting Standards Advisory Forum

The IASB ASAF next meets on **7-8 April 2016**.

8. International Auditing and Assurance Standards Board

The IAASB next meets on **14-18 March 2016**.

9. International Ethics Standards Board for Accountants

The IESBA next meets on **14-16 March 2016**.

10. IFRS Foundation Asia-Oceania Workshop

The IFRS Foundation held a two-day standard-setting workshop for standard-setters from the Asia-Oceania region in Tokyo on 28-29 January 2016.

The focus of the workshop is to discuss accounting issues currently faced in practice and how to improve selected standards. The Institute participated in the workshop and shared the concerns and feedback it received from Hong Kong stakeholders on the following topics:

- Financial Instruments with Characteristics of Equity;
- Disclosure Initiative;
- Insurance; and
- Conceptual Framework.

Useful Resources

11. Publications

Deloitte published:

- **IFRS in Focus** that sets out financial reporting issues that may be relevant for the financial year end 31 December 2015 as a result of areas of regulatory focus, the current economic environment or changes in accounting standards; and

- **IFRS Industry Insights** which highlights how the new lease standard impacts the **property** and **aviation** industries.

KPMG published **Illustrative Disclosures** for annual financial statements of investment funds.

The IESBA published an **article** on ethical considerations relating to audit fee setting in the context of downward fee pressure.

The IASB published:

- Chairman Hans Hoogervorst's **speech** at the annual AICPA conference at Washington D.C. on 10 December 2015 in relation to the progress of improvements to IFRS standards and further changes on the horizon;
- the **January IASB update** about insurance contracts, discount rates research, fair value measurement and revenue from contracts with customers; and
- the new lease standard, IFRS 16 *Leases*; a **video** message from Chairman Hoogervorst, a **press release** and an **article** addressing the concerns surrounding the impact of IFRS 16 on businesses; and **Investor Perspectives** that discusses how the financial statements will change as a result of IFRS 16 for better investor information.

The Institute published:

- a **list** of new and amended Standards and Interpretations that are relevant to December 2015 reporters; and
- a **comparison** between Hong Kong Financial Reporting Standards and International Financial Reporting Standards as at 31 December 2015.

Comment Due Dates

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

19 February 2016: IASB ED/2015/9 *Transfers of Investment Property* (Proposed amendment to IAS 40)

19 February 2016: IFAC's IESBA ED *Proposed Revisions Pertaining to Safeguards in the Code of Ethics for Professional Accountants – Phase 1*

14 March 2016: IFAC's IESBA ED *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*

16 April 2016: IFAC's IAASB Invitation to Comment *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Controls and Group Audits*

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

12. HKEx Publishes Results of its Latest Review of Disclosure in Issuers' Annual Reports

On 29 January, Hong Kong Exchanges and Clearing Limited ("HKEX") published a [report](#) on the findings and recommendations from its review of listed issuers' annual reports, for the financial year ended in December 2014, to monitor their compliance with the Listing Rules, corporate conduct and disclosure of material events and developments.

HKEX noted that some issuers did not fully follow the relevant guidance on best practices, and specifically drew issuers' attention to the following areas where they should improve their practices:

- a. Continuing connected transactions – it is unclear how the independent directors assessed and concluded that the transactions were conducted according to the terms of the framework agreements between the issuers and their connected persons. With the new Code Provision C.2.5 of Appendix 14 to the main board listing rules / Appendix 15 to the GEM listing rules requiring internal audit review of risk management and internal control systems, issuers are reminded to ensure that their internal audits review continuing connected transactions and the relevant internal control procedures, and provide the findings to independent directors to assist them in performing their annual review.
- b. Contractual arrangements adopted by issuers – a vast majority of issuers adopting contractual arrangements did not disclose details of their business activities or a summary of the major terms under the relevant structured contracts and their significance to the issuers. Given the potential risks associated with these

arrangements, issuers should take note of and consider the guidance ([HKEx-GL77-14](#)) in preparing their future annual reports.

- c. Disclosure of significant changes to issuers' financial performance and reliance on key customers in the MD&A section – issuers should provide more in-depth discussion about their compliance with the relevant laws and regulations, their capital requirements and the financing plan for such capital requirements, and their key relationships with customers. Issuers should note that some of these items were previously recommended commentaries and are now disclosure requirements for business reviews under the listing rules, which apply to annual reports of financial periods ended on or after 31 December 2015.
- d. Equity fundraising – issuers should provide meaningful updates in their annual reports on the actual use of proceeds from equity fundraisings, including details of the application and a breakdown of how the funds were allocated among different uses.

Members, in particular directors and those who are responsible for preparing annual reports of listed issuers are encouraged to take note of the observations and recommendations discussed in the report and follow the relevant guidance.

13. CFOs Should Do More Before Making the Leap

[CFO.com](#) reported that 30% of Chief Executive Officers ("CEOs") do not think their finance chiefs fully understand issues that CEOs face or offer enough help, according to a [KPMG survey "The view from the top"](#). In this worldwide survey of 549 chief executives, the majority of the respondents say the role of chief financial officer will become more important in the next few years and better talent management is critical for improving the financial function.

In the [January 2016 issue of A Plus magazine](#), some successful CFO-turned-CEOs talked about their career development paths. Read the article to find out what more is needed

to become the final decision-maker, which could mean a huge change in mindset.

Corporate Finance

14. HKEx Publishes Listing Document Simplification Guide

On 2 February, HKEx published a new "Guide on Producing Simplified Listing Documents Relating to Equity Securities for New Applications" ([HKEx-GL86-16](#)) to encourage listing applicants and their advisers to produce a succinct listing document that is user friendly for both retail and professional investors.

The objectives of the Guide are to:

- assist applicants and their advisers to produce listing documents which fulfil the general principle that potential investors are given sufficient information to enable them to make a properly informed assessment of an applicant (main board rule 2.03(2) and GEM rule 2.06(2)) and that information contained in a listing document must be clearly presented and in plain language format (main board rule 2.13 and GEM rule 14.26);
- improve investors' ability to find and understand information in a listing document necessary to make a properly informed assessment of an applicant; and
- consolidate and update guidance on listing document simplification.

The Guide is divided into three parts:

- a. General Guidance – on producing clear and concise listing documents.
- b. Consolidated Guidance – consolidated and updated version of a number of HKEx guidance letters on disclosures in listing documents, mostly included under the title "Simplification Series".
- c. Sample Constitutional Documents – online hyperlinks to: sample "Summary of the Constitution of the Company and the Companies Law" sections of listing

documents of applicants incorporated in Bermuda, the Cayman Islands and Mainland China ("Specimen Sections"); and the corresponding sample constitutional documents for the applicants.

HKEx has indicated that it will not return a listing application merely because it does not follow the General Guidance, the Specimen Sections or the Sample Constitutional Documents, but will remind applicants to do so. Applicants intend to submit their listing applications after 30 April 2016 should comply with the Consolidated Guidance in place of the HKEx guidance letters on disclosures in listing documents.

The Guide, the Specimen Sections, the Sample Constitutional Documents and related frequently asked questions ("FAQ") are available on the [HKEx website](#).

15. HKEX Rolls Out Its Strategic Plan 2016-2018

HKEx published its [Strategic Plan 2016-2018](#) on 21 January, outlining the development roadmap for itself and Hong Kong's financial markets.

HKEx's strategic goals for the three-year period are to extend and deepen its value proposition as China and the world markets accelerate their mutual integration. The plan includes HKEx's business strategy for its three asset classes: equity, commodities and fixed income and currency. It also covers the company's goals in client relationship management and platform enhancement as well as market microstructure and regulation.

Read the [press release](#) and the HKEx chief executive's elaboration, in the form of [FAQ](#), for detail.

Taxation

16. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- LegCo questions on:

- [Imposing stamp duty on transactions of specified derivatives](#)

- [Processing requests for adjudication of stamp duty](#)

- [Frequently asked questions](#) on stamp duty on Mutual Recognition of Funds between the Mainland and Hong Kong

- The [agreement](#) of the Inland Revenue Department ("IRD") to apply the principle of fair value accounting to prepare Profit Tax Return for the years of assessments 2013/14 - 2015/16

- The [tax treaty](#) between Hong Kong and Russia has recently been concluded

- Advance Ruling Cases No. [55](#), [56](#) and [57](#), relating to court-free company amalgamations

- [Community service order and fine for taxpayer falsely claiming expenses for self-education and approved charitable donations](#)

- [A notice](#) to remind taxpayers to notify the change of their postal addresses to the IRD in view of the issue of Tax Return – Individuals

- [Suspension](#) of filing of Tax Return - Individuals through eTAX system

- [List of qualifying debt instruments](#) as at 31 December 2015

Legislation & Other Initiatives

17. Anti-Money Laundering Notices

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

- [Government notice 10026](#): An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Central African Republic) Regulation 2015.

- **Legal notice 8:** The United Nations Sanctions (Iran) (Amendment) Regulation 2016 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/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

18. 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.

19. Other Publications

(i) HKEx has published:

- Guidance letters on:
 - Placing to connected clients, and existing shareholders or their close associates, under the Listing Rules ([HKEx-GL85-16](#))
 - Producing simplified listing documents relating to equity securities for new applications ([HKEx-GL86-16](#))
- [Country guide on Russia](#)
- [Report](#) on initial public offering applications, delisting and suspensions (as at 29 January)

(ii) SFC has published:

- [Research Paper No. 58:](#) A Review of the Global and Local Securities Markets in 2015

(iii) Other publications:

- [M&A 2015 review and 2016 outlook](#), PwC
- [Trends that will shape the CPA profession in 2016](#), Journal of Accountancy
- [Despite "New Normal", Asia continues to rise as a source of business growth](#), CFO Innovation
- [Organizing for the future series](#), McKinsey & Company
- [Auditing corporate culture](#), Ethical Boardroom
- [CPA firm heads looking for the right M&A candidates](#), Accounting Today
- [Accountancy among sectors with highest risk of automation](#), Accountancy Age