



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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## Standard Setting Developments

### Audit & Assurance

#### 1. Institute's Auditing and Assurance Standards Committee Meeting Minutes

The [minutes](#) for the AASC meeting held on 12 April 2016 is now available.

#### 2. New Invitation to Comment

The Institute issued an [Invitation to Comment](#) on IAASB's Survey Consultation, *The IAASB's Work Plan for 2017-2018 and Continuing Relevance of its Strategic Objectives* and requested for comments by 30 August 2016.

### Ethics

#### 3. Responding to Non-Compliance with Laws and Regulations

IESBA has issued a new standard, "Responding to Non-compliance with Laws and Regulations", effective 15 July 2017.

The standard sets out a first-of-its-kind framework to guide professional accountants in deciding how best to act in the public interest, without breaching their duty of confidentiality, when they become aware of non-compliance or suspected non-compliance with laws and regulations—including matters such as fraud, money laundering, and tax payments.

The pronouncement and more guidance about the new standard is available [here](#).

### Financial Reporting

#### 4. Institute's Financial Reporting Standards Committee Meeting Minutes

The [minutes](#) for the FRSC meeting held on 7 June 2016 is now available.

#### 5. Open for Comment: IASB Exposure Draft

Your comments on IASB's ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* (Proposed Amendments to IFRS 3 and IFRS 11) are requested by [30 September 2016](#).

#### 6. Institute's comments on IVSC Exposure Drafts

The Institute [commented](#) on exposure drafts on IVS 104 *Bases of Value*, IVS 105 *Valuation Approaches and Methods* and IVS 210 *Intangible Assets* that were issued by the International Valuation Standards Council.

### Technical Learning and Support

#### 7. New Programmes Open for Registration

Click on the event titles below to register:

- [Workshop series for Listing of a Company in Hong Kong Stock Exchange](#) (available August to November 2016)
- [E-seminar: the revised Auditor's Report](#) (available until August 2017)

### Useful Resources

#### 8. Institute's Technical Resource Centres

Access the Institute's comprehensive resource centres:

- [New Companies Ordinance](#)
- [HKFRS for Private Entities](#)
- [SMP and SME](#)

#### 9. LinkedIn

The Institute's Standard Setting Department launched a LinkedIn page to engage with interested parties on the latest standards and developments in financial reporting, auditing and ethics. Click [here](#) to follow us for prompt updates and join in on our discussions.

## 10. Podcasts, Publications and Webinars

- (i) Audit and Assurance
  - The ICAEW's [resource page](#) provides tips on how to adopt a skeptical mindset in audit.
  - The IAASB's [diagram](#) facilitates the determination of key audit matters for the new Auditor's Report.
- (ii) Corporate Reporting
  - The managing director of sustainability at American Electric Power provides [suggestions](#) on how to manage various sustainability reporting guidelines.
  - Global trends in sustainability reporting regulation and policy are outlined in this [publication](#) by the Global Reporting Initiative, the United Nations Environment Programme, KPMG International and the Centre for Corporate Governance in Africa.
- (iii) Financial Instruments:
  - The IASB's [webinar](#) explores how to incorporate forward-looking information and multiple scenarios in the application of IFRS 9's new impairment requirements.
- (iv) International Standard Setting meetings:
  - Podcasts highlighting the June 2016 [IAASB meeting](#) and [IESBA meeting](#) are now available online.
- (v) Presentation and Disclosure:
  - The IASB published an [Investor Update](#) highlighting topical market-relevant reporting matters, e.g. non-IFRS information and presentation of financial information.
  - KPMG has published an illustrative [interim financial report](#) under HKFRS for the six months ended 30 June 2016.

## Advocacy and Practice Development/Member Support

### Professional Accountants in Business

#### 11. New IFAC Research Report Demonstrates Positive Association Between Business Performance and Use of Accountants

A new International Federation of Accountants ("IFAC") research report "[The Relationship between Accountancy Expertise and Business Performance](#)" shows how advice and expertise from accountants helps improve business performance at companies around the world.

The report summarizes the findings by entity size (small- and medium-sized entities ("SMEs") and large entities) as important differences exist between studies about each group and in how business performance and accountancy expertise are put into operation and the results interpreted. The research also shows the positive impact professional accountants have on aligning organizations' goals and actions. Professional accountants are well-suited to play various roles in organizations, including analysis and communication of information, decision making, managing risks, and creating sustainable value - roles that indirectly impact business performance.

In addition to the full report, IFAC also issued a [summary of key findings](#).

### Corporate Finance

#### 12. HKEX Publishes Results of its Latest Review of Listed Issuers' Financial Reports

On 15 July, Hong Kong Exchanges and Clearing ("HKEX") [published](#) a report summarizing key findings from its review of 100 periodic financial reports released by listed issuers between March 2015 and April 2016.

The **report** highlights the following areas where there is room for improvement and special focus is required:-

- Enhancements to Management Discussion and Analysis ("MD&A") – MD&A should be balanced (with coverage of good news as well as bad news) and sufficiently tailored to the issuer's specific circumstances.
- Disclosures under the Companies Ordinance – Issuers should pay attention to the recent Listing Rule amendments with reference to the Companies Ordinance (Cap. 622) applicable to all issuers (whether or not they are incorporated in Hong Kong).
- Resolution of issues relating to modified auditors' reports – Issuers whose financial statements have auditors' reports with modified opinions should take proactive steps to resolve the issues identified with their auditors as soon as practicable.
- Extended auditor reporting – Issuers, in particular their audit committee, should note that for audits of financial statements for periods ending on or after 15 December 2016, they should have in-depth conversations with their auditors about key audit matters, going concern issues and other significant events or transactions that occurred during the reporting period.
- Key Hong Kong Financial Reporting Standards ("HKFRSs") that will soon become effective – Issuers should note that a number of key accounting standards will soon become effective, such as HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers*, HKFRS 16 *Leases*, and should perform a detailed review of these standards as soon as practicable.
- Rigorous assessment of impairment of assets – Issuers should aim to improve the quality of their disclosure of how they carried out their work on the impairment of assets, particularly where the recoverable amount was based on value in use, which required management's estimation of cash

flow projections, growth rates and appropriate discount rates.

- Non-HKFRS financial information – Issuers that choose to present non-HKFRS financial information to provide additional insight into their performance should ensure that the information is not misleading, would not obscure their financial results and financial position, and would not provide an incomplete description of their financial results based on accounting standards.
- Determination of control over investees – Issuers should ensure that the relevant facts and circumstances are clearly disclosed so that investors and other users of financial statements understand why the issuer has control over an investee, in particular, in cases where the issuer only has de facto control over the investee.

Members, especially those responsible for preparing financial reports of listed issuers, are encouraged to read the report.

### 13. Further Consultation Conclusions on Introducing Mandatory Clearing and Expanding Mandatory Reporting for OTC Derivatives Market

As reported in **TechWatch no. 161** (item 16), the Hong Kong Monetary Authority ("HKMA") and the Securities and Futures Commission ("SFC") released their **conclusions** to the proposals made in a joint consultation on introducing mandatory clearing and expanding mandatory reporting for the second stage of the over-the counter ("OTC") derivatives regulatory regime in February 2016. The conclusions paper set out the revised proposals after taking into account market comments and feedback and sought to further consult on the initial list of financial services providers.

On 15 July, HKMA and SFC **published** further **consultation conclusions** which set out the revised proposals on various technical aspects of the next stage of the regime in light of market feedback and comments. The paper also includes a revised version of the specific data fields to be completed under the expanded

reporting regime, and a revised list of entities that will be regarded as financial services providers for the purpose of mandatory clearing.

## Taxation

### 14. Announcements by the Inland Revenue Department ("IRD")

Members may wish to be aware of the following matters:

- **The tax agreement** between Hong Kong and Russia come in force
- **Fraudulent email** purportedly issued by Inland Revenue Department
- **List of Approved Research Institutes** as at 4 August 2016
- **List of Qualifying Debt Instruments** as at 30 June 2016
- **Advance Ruling Case No. 58**, involving an amalgamation under the Companies Ordinance
- Taxpayers jailed for:
  - **falsely claiming expenses for self-education and approved charitable donations** (following a review of the sentence – first reported in TechWatch Issue 165)
  - **falsely claiming deduction of approved charitable donations**

## Legislation & Other Initiatives

### 15. Anti-Money Laundering/Combating the Financing of Terrorism ("AML/CFT") Notices

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

- **Government notice 3914**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.

- **Government notice 4054**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 4415**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **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

### 16. 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.

### 17. Other Publications

- (i) HKEX has published a [report](#) on initial public offering applications, delisting and suspensions (as at 29 Jul)
- (ii) SFC has published:
  - First **Quarterly Report** for financial year 2016-17 summarizing key developments from 1 April to 30 June 2016
  - **Research Paper No. 59**: Half-yearly Review of the Global and Local Securities Markets

(iii) Other publications:

- **Beneath the surface of a cyberattack – A deeper look at business impacts** by Deloitte
- **How can CPAs combat Cyber Crime** by LinkedIn/AICPA
- **How blockchain will impact accountants and auditors** by Economia
- **Where machines could replace humans – and where they can't (yet)** by McKinsey & Company
- **How inadequate technology is risky business for accounting firms** by CPA Practice Advisor
- **2016 Global Fraud Study Results** by Clifton Larson Allen
- **Enhancing the audit report: the good, the bad, and the (far from) ugly** by Business Times