



TechWatch

News at a glance

Issue 170 • December 2016

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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Standard Setting Developments by:
Christina Ng (Editor), Kam Leung, Daisy Xia

Advocacy and Practice Development by:
Peter Tisman (Editor), Eric Chiang, Elena Chai, Wallace Wong
Member Support by:
Mary Lam (Editor), Eddy Wong

Standard Setting Developments

Member's Handbook

1. Handbook Update No.191

No. 191 contains amendments relating to the IASB's annual improvements projects and other narrow-scope amendments.

Audit & Assurance

2. FAQ on Key Audit Matters

The Institute published a new **FAQ** on the application of HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

3. Illustrative Auditor's Report for ETF or REIT

The Institute published an illustrative **auditor's report** for financial reports of listed Exchange Traded Funds or listed Real Estate Investment Trusts. The illustrative report is for audits of financial periods ending on or after 15 December 2016.

4. Annual Auditing Update

The Institute held its 2016 Annual Auditing Update Conference on 29 October 2016. Topics discussed included what IES 8 means for Hong Kong accountants in practice, observations on how the revised auditor's report could be implemented, and updates on international as well as locally-developed pronouncements for the Hong Kong capital market.

Watch this **space**: an e-Seminar on the conference will be available for registration soon.

5. International Updates

The IAASB published **Part 1** of a three-part summary of academic research on auditor professional skepticism from 2013 to 2015. The research forms part of the IAASB project on

how to more effectively respond to issues related to professional skepticism. Part 2 and Part 3 of the research findings will be available soon.

Financial Reporting

6. New Invitation to Comment

The Institute issued a new Invitation to Comment on its **Exposure Draft Revised Accounting Bulletin 3 Guidance on Disclosure of Directors' Remuneration**. Comments are requested by **24 January 2017**.

7. Institute Comments on IASB Exposure Draft

The Institute provided **comments** on IASB Exposure Draft ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* (Proposed Amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*).

8. Annual Accounting Update

The Institute held its 2016 Annual Accounting Update Conference on 5 November 2016. Implementation advice on the new accounting standards for financial instruments, leases and revenue were shared by an early-adopter in Hong Kong and auditors and technical experts from accounting firms.

Watch this **space**: an e-Seminar on the conference will be available for registration soon.

9. AOSSG Annual Meeting

The standard-setting department and our Financial Reporting Standards Committee chairperson participated at the **8th annual AOSSG meeting** on 29 and 30 November 2016. Members across Asia-Oceania attended and discussed topical issues relevant in the region with four IASB members, including the chairman and vice-chairperson, and IFRS Foundation staff. Follow us on **LinkedIn** for a series of SSD's reflections on the meeting.

10. International Updates

IASB developments:

- These podcasts summarize the **October** and **November** 2016 IASB meetings.
- The November **IASB Update** contains the IASB's tentative decisions on the effective date of the forthcoming insurance contracts standard, the proposed Materiality Practice Statement and the proposed revision to its Conceptual Framework.
- The IASB's new **work plan** for the next five years aims to improve communication effectiveness of financial statements by taking a fresh look at how financial information is presented and grouped together.
- This IASB **video** explains the importance of international collaboration on standard-setting and the evolving relationship between the IASB, regional groups and standard-setters, including the HKICPA.
- The November **Investor Update** focuses on the amendments to IFRS 4 *Insurance Contracts* as a result of applying IFRS 9 *Financial Instruments*.

IFRS Interpretations Committee developments:

- This **webcast** for the November IFRS Interpretations Committee meeting discusses IFRS 9 *Financial Instruments*, IAS 12 *Income Taxes* and IFRS 10 *Consolidated Financial Statements*. The **IFRIC Update** is also available.

Technical Learning and Support

11. New Programmes Open for Registration

Click on the event title below to register:

- **Refresher Course on Current Auditing standards** (multiple sessions available in February 2017)

Useful Resources

12. Institute's Technical Resource Centres

Access the Institute's comprehensive resource centres:

- **New and Major Standards**
- **ICAEW's International Accounting, Audit and Ethics Content**
- **New Companies Ordinance**
- **HKFRS for Private Entities**
- **SMP and SME**

13. LinkedIn

Click **here** to follow the LinkedIn page of the Institute's Standard Setting Department and also join in on our discussions. You will receive prompt updates on the latest standards and developments in financial reporting, auditing and ethics.

14. Publication

The ICAEW's articles ***Risk assessment and internal controls: continuing challenges for auditors*** discuss some of the issues that auditors of smaller, less complex entities continue to find challenging.

Advocacy and Practice Development/Member Support

Corporate Governance

15. Results of the 2016 Best Corporate Governance Awards

The Best Corporate Governance Awards 2016 ("Awards") were successfully concluded with the presentation ceremony held at a luncheon on 1 December. The guest of honour was Secretary for Financial Services and the Treasury, Prof. K C Chan.

The results of the 2016 Awards were announced at a media briefing held on 30 November. Only one diamond award was given out this year - to CLP Holdings Ltd., in the Hang Seng Index ("HSI") Category, as the judges considered that, while there were companies with a high standard of governance in other categories, there was still a gap, albeit narrowing, between those categories and the best in the HSI. The Institute was pleased to be able to announce a number of first-time awardees this year and other companies winning one of the main awards for the first time (denoted by* in the list below). In [his speech](#), our guest of honour thanked the HKICPA, the judges, reviewers and companies represented at the ceremony for helping to uphold standards of corporate governance, which he said is the cornerstone of Hong Kong as an international financial centre. Prof. Chan also commended the quality of the Judges' Report.

This year, the word "disclosure" was dropped from the name of awards, which became simply the "Best Corporate Governance Awards", emphasizing that good CG requires more than just good disclosure. In an effort to expand the reach of the competition, the Institute also introduced several new types of awards for companies that were not among the winners of the main awards. These included a new award for website CG information, which was won by a public sector organization. New awards were also available for board and audit committee

operation and functioning and risk management and internal control. However, the judges considered that, for the bulk of companies, there was still more that needed to be done in these important areas of CG and so they decided not to give out these awards this year. The awards for Sustainability and Social Responsibility Reporting again proved to be highly competitive. This is an area of non-financial reporting which is clearly seeing significant improvement.

More than 650 annual reports and sustainability/corporate social responsibility reports of listed companies and public sector/not-for-profit organizations were reviewed in this year's Awards. In addition, around 600 websites were visited to identify potential candidates for the new awards for website CG information. These included a range of organizations of different sizes, operating in different industry sectors, international corporations, family-controlled local companies and Mainland businesses, in addition to public sector organizations

The full list of winners of the 2016 Awards is as follows:

HSI Category

Diamond – CLP Holdings Limited
 Gold – Hong Kong Exchanges and Clearing Limited
 Special Mention – MTR Corporation Limited

Non-HSI (Large Market Capitalization) Category

Platinum – The Hongkong and Shanghai Hotels, Limited
 Gold – Hysan Development Company Limited

Non-HSI (Mid-to-small Market Capitalization) Category

Gold – Pacific Basin Shipping Limited

H-share Companies and Other Mainland Enterprises Category

Platinum – Lenovo Group Limited
 Gold – Bank of China Limited *
 Special Mention – China CITIC Bank Corporation Limited
 Special Mention – Huatai Securities Co., Ltd. *

Public Sector/Not-for-profit Category

Platinum – Airport Authority Hong Kong
 Gold – Securities and Futures Commission

Sustainability and Social Responsibility Reporting Awards

Winner – CLP Holdings Limited (HSI Category)
 Special Mention – The Hongkong and Shanghai Hotels, Limited (Non-HSI (Large Market Capitalization) Category)
 Special Mention – Lenovo Group Limited * (H-share Companies and Other Mainland Enterprises Category)
 Special Mention – Airport Authority Hong Kong * (Public Sector/Not-for-profit Category)

Award for Website Corporate Governance Information

Winner – Hospital Authority *

The **Judges' Report** contains commentaries on the winners' CG practices, general observations by the judges, highlights of recent local and international CG developments, as well as other background information.

Professional Accountants in Business

16. Report of IFAC PAIB Committee Meeting

The IFAC PAIB Committee has made a fundamental change to how it conducts meetings, with more dynamic sessions involving small group discussions and interactive exercises to solicit the knowledge, experiences, and input of all its members and technical advisors from around the world.

At its September 2016 meeting held in Dubai, various PAIB-related topics were covered, including:-

- enhancing audit quality from a PAIB perspective;
- integrating risk into decision making;
- trends impacting the finance function: a focus on technology;
- creating and communicating value creation through integrating reporting; and

- the accountancy profession's contribution to the United Nations sustainable development goals.

Meeting highlights, outcome and recommended actions are now available [online](#).

17. First Concluded MMT Case on Late Disclosure of Inside Information

On 30 November, the Market Misconduct Tribunal ("MMT") fined each of AcrossAsia Limited ("AcrossAsia"), its former chairman ("Cheok") and chief executive officer ("Ang") after finding they had failed to disclose inside information to the public as soon as reasonably practicable as required under Part XIVA of the Securities and Futures Ordinance. The MMT further ordered AcrossAsia, Cheok and Ang to pay the costs of the MMT proceedings and the Securities and Futures Commission ("SFC")'s investigation and legal costs.

Cheok and Ang were also ordered to complete a SFC approved training programme on compliance with the inside information disclosure requirements.

Read the [SFC press release](#) and the [MMT report](#) for further detail.

Corporate Finance

18. Official Launch of Shenzhen-Hong Kong Stock Connect

With the approval of the China Securities Regulatory Commission ("CSRC") and the Hong Kong SFC, mutual trading access between the Shenzhen and Hong Kong stock markets ("Shenzhen-Hong Kong Stock Connect") commenced on 5 December 2016.

The CSRC and the SFC have established arrangements and procedures for cross-boundary liaison and cooperation on any contingency or major event that affects the mutual trading access and for referring and handling investors' complaints. The two regulators have also entered into a new [memorandum of understanding](#) on strengthening cross-boundary regulatory and

enforcement cooperation, which superseded the previous memorandum of understanding applicable to Shanghai-Hong Kong Stock Connect.

Read the CSRC-SFC [joint announcement](#) for detail.

19. SFC and HKEX Keep Rights Issues and Open Offers under Scrutiny

On 9 December, the SFC and Hong Kong Exchanges and Clearing ("HKEX") jointly [announced](#) that they are closely monitoring rights issues and open offers that substantially dilute the interests of non-subscribing minority shareholders. They are concerned that in some cases such corporate actions have not been conducted in a manner that affords fair and equal treatment to all shareholders.

The listing decisions, [HKEX-LD102-2016](#) and [HKEX-LD103-2016](#), reflect HKEX's approach in handling highly dilutive offers and share consolidations/subdivisions.

20. SFC and FINMA Sign Agreement on Switzerland-Hong Kong Mutual Recognition of Funds

The SFC and the Swiss Financial Market Supervisory Authority ("FINMA") signed a memorandum of understanding on Switzerland-Hong Kong Mutual Recognition of Funds and Asset Managers ("MoU") on 2 December. The MoU allows eligible Swiss and Hong Kong public funds to be distributed in each other's market through a streamlined vetting process. It also establishes a framework for exchange of information, regular dialogue and regulatory cooperation in relation to the cross-border offering of public funds.

Further details of the mutual recognition of funds scheme are set out in the [SFC Circular](#).

21. New Measures to Heighten Accountability of the Senior Management of Licensed Corporations

On 16 December, the SFC issued a [circular](#) to all licensed corporations to introduce measures to heighten the accountability of the senior

management of these firms and to promote awareness of senior management obligations under the current regulatory regime.

The circular provides more guidance on who should be regarded as the senior management of a licensed corporation. It identifies eight core functions which are instrumental to the operations of licensed corporations, which are expected to designate fit and proper individuals to be Managers-In-Charge of each of these functions. Those who have overall management oversight of the licensed corporations and those in charge of key business line functions are expected to seek the SFC's approval as responsible officers.

The SFC has also published over 40 [frequently asked questions](#) to provide more guidance to the industry on the measures.

22. SFC Issues Further Guidance on Suitability Obligations

On 23 December, SFC issued further guidance in the form of two circulars on the suitability obligations of licensed or registered persons when recommending or soliciting investments.

The circular "[Frequently Asked Questions \(FAQs\) on Triggering of Suitability Obligations](#)" seeks to clarify what may trigger the suitability obligations. It explains that posting an advertisement for an investment product or disseminating a research report may not trigger the suitability obligations in the absence of a direct communication with a client. The circular also provides examples of when the suitability obligations may be triggered and provides guidance on how they are discharged when providing discretionary account services.

Another circular "[Frequently Asked Questions on Compliance with Suitability Obligations](#)" updates guidance on complying with the suitability obligations and clarifies that the suitability obligations are relevant to all licensed or registered persons making a recommendation or solicitation. It also provides, among others, guidance on product due diligence as well as the documentation of investment recommendations which are to be maintained in audio or written form.

Taxation

23. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- **The revised Departmental Interpretation and Practice Notes No. 6**, on objections and appeals, reflecting the legislative changes brought about by the Inland Revenue (Amendment) (No. 3) Ordinance 2015 which commenced on 1 April 2016
- **The latest assessment practice** on court-free amalgamations
- **Update on Country-by-Country Reporting**, including transitional arrangement pending the introduction of the legal framework
- **The tax treaty** between Hong Kong and Romania has come into force
- **A taxpayer imprisoned** for falsely claiming deductions for self-education expenses and approved charitable donations
- **List of qualifying debt instruments** (as at 30 September 2016)

Legislation & Other Initiatives

24. The Companies (Winding Up and Miscellaneous Provisions) (Amendment) Ordinance 2016

The Companies (Winding Up and Miscellaneous Provisions) (Amendment) Ordinance 2016 ("Amendment Ordinance"), which was passed by the Legislative Council on 27 May 2016, seeks to improve and modernize Hong Kong's corporate winding-up regime by providing measures to increase protection of creditors as well as streamline and further enhance the integrity of the winding-up process.

The Amendment Ordinance (Commencement) Notice 2016 was gazetted on 9 December, and

13 February 2017 has been appointed as its commencement date.

Visit the [website](#) of the Official Receiver's Office for Q&As and other information on the new legislation.

25. Anti-Money Laundering Notices and FATF Mutual Evaluations

Members may wish to note the following notices and publications in relation to Anti-money laundering/ combating the financing of terrorism ("AML/CFT"):

- **Government notice 6223**: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 6845**: A list of relevant persons and entities has been specified under the United Nations Sanctions (Joint Comprehensive Plan of Action—Iran) Regulation.
- **Government notice 6987**: An updated list of relevant persons has been specified under the United Nations Sanctions (South Sudan) Regulation 2016.
- **Government notice 6988**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2016.
- **Government notice 6989**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Democratic People's Republic of Korea) Regulation.
- **Government notice 6990**: An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Libya) Regulation 2011.
- **Legal notice 177**: The United Nations Sanctions (Iran) Regulation (Repeal) Regulation has been published in the Gazette.

- **Legal notice 178:** The United Nations Sanctions (Joint Comprehensive Plan of Action—Iran) Regulation 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.

The Financial Action Task Force (“FATF”), the international inter-government organization responsible for setting AML standards, conducts [reviews or mutual evaluations \(“MEs”\)](#) of the effectiveness of FATF members’ AML regimes. Recently completed MEs include those on Canada, the United States, Singapore and Switzerland. Hong Kong is due for an ME in 2018.

Useful Resources

26. 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.

27. Other Publications

(i) HKEX has published:

- New listing decisions on
 - Whether listing approval for the proposed rights issue of a listed issuer would be granted ([HKEX-LD102-2016](#))

- Whether a share subdivision proposed by a listed issuer would be approved ([HKEX-LD103-2016](#))

- Updated guidance on documentary requirements and administrative matters for new listing application (equity) ([HKEX-GL55-13](#))
- [Presentation on A New Stage of RMB Internationalisation and the Opportunity for Hong Kong](#), by Prof. Ba Shusong, HKEX Chief China Economist (available in Chinese only)
- [Market statistics](#) from 1 January to 15 December 2016 and the corresponding [press release](#)
- Reports on initial public offering applications, delisting and suspensions as at [30 Nov](#) and [30 Dec](#)

(ii) SFC has published:

- [Enforcement Reporter No. 1](#), a newsletter aims to give the market a better understanding of the SFC’s enforcement work and focus by highlighting significant enforcement actions and related issues. This issue focuses on corporate fraud and misfeasance and anti-money laundering internal controls
- [Corporate Regulation Newsletter No. 4](#), which highlights specific issues related to disclosures by listing applicants and listed companies. This issue emphasises timely and accurate disclosure of inside information and to use clear and concise language when doing so. It also discusses disclosure requirements for listed debt issuers and trends in inside information disclosure
- [Takeovers Bulletin No. 39](#), which aims to help industry participants better understand the Codes on Takeovers and Mergers and Share Buy-backs. This issue sets out the performance pledge of the Takeovers team and

- explains the case management procedures for Code matters and revised Practice Note 1 in relation to partial offer
 - **Survey results on the sale of non-exchange traded investment products:** The survey aimed to provide information on the industry landscape and to obtain an overview of the types and value of investment products sold by licensed corporations, which helps the SFC supervise selling practices
 - A synopsis of the **SFC Regtech and Fintech Contact Day 2016**
 - Speech on **The development of Hong Kong as an asset management centre**, by Christina Choi, SFC Executive Director, Investment Products Division
 - **2nd Quarterly Report** summarizing key developments from July to September 2016
- (iii) The Financial Services Development Council report "**A Paper on Tax Issues Affecting Hong Kong to Become a Preferred Location for Regional and International Financial Institutions to Originate and Trade International Financial Products**", which sets out some key areas in Hong Kong's tax regime for the Government to consider for enhancing the attractiveness of Hong Kong to financial institutions.
- (iv) Other publications:
- **Cyber risk in advanced manufacturing** by Deloitte and the Manufacturers Association for Productivity and Innovation
 - **Outlook for e-commerce in Hong Kong – CEO and consumer perspectives** by KPMG China and GS1 Hong Kong
 - **Why Build a Tech-Enabled Practice?** by Accounting Web
 - **10 Things You Missed in Technology** by Accounting Today
 - **Using Agile to Accelerate Your Data Transformation** by McKinsey & Company
 - **10 Ways Accounting Firms Can Retain Staff** by CPA Practice Advisor
 - **How to Harness Your Emotions for Peak Business Performance** by CFO Innovation
 - **Can Global Capitalism Be Saved?** By Economica