



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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Standard Setting Developments

Members' Handbook Update

1. Handbook Update No.217

Update **no. 217** relates to the Amendments to HKAS 19 *Employee Benefits*.

Meeting Minutes

2. Financial Reporting Standards Committee

February **minutes** are available.

3. Auditing and Assurance Standards Committee

March **minutes** are available.

Invitation to Comment

4. IESBA Consultation Paper

The Institute is seeking **comments** on the IESBA Consultation Paper: *Proposed Strategy and Work Plan, 2019-2023*. Comments are due by **15 June**.

5. IASB Exposure Draft

The Institute is seeking **comments** on the IASB Exposure Draft ED/2018/1 *Accounting Policies Changes*. Comments are due by **29 June**.

International Updates

6. IASB Updates

- The IASB Vice-Chair **discusses** IFRS 9 *Financial Instruments* and explains the Board's thinking behind the accounting requirements for equity investments in IFRS 9.
- New **supporting materials** for the *IFRS for SMEs* Standard.
- **Webinar** on the revised *Conceptual Framework for Financial Reporting*.

7. IESBA Update

IESBA issued the restructured ***International Code of Ethics for Professional Accountants***. The Institute plans to adopt the restructured Code and will update the Members' Handbook in due course.

Useful Resources

8. 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**

9. **Linked**

Follow our **LinkedIn** for key developments in financial reporting, auditing and ethics.

Advocacy and Practice Development/Member Support

Corporate Finance

10. HKEX Updates Guidance on IPO Vetting and Suitability for Listing

On 13 April, Hong Kong Exchanges and Clearing ("HKEX") **published** an updated Guidance Letter on Initial Public Offering Vetting and Suitability for Listing.

The **Guidance Letter** emphasizes that the focus of HKEX's suitability review is qualitative and not based on a "checklist". It reiterates that the characteristics set out therein are not a "checklist" for potential shell companies, and that exhibiting none of those characteristics does not necessarily mean that a listing applicant is suitable. HKEX assesses a listing applicant's suitability holistically and, in particular, examines whether the use of

proceeds and funding needs are consistent with its future objectives and strategies, and whether the listing applicant has a commercial rationale for listing as well as all other relevant information.

11. Broadening Hong Kong's Listing Regime

On 24 April, HKEX **announced** that the new rules that cater for companies in emerging and innovative sectors seek a listing in Hong Kong would take effect on 30 April 2018.

Three new chapters in the Main Board Listing Rules ("LR") are added to permit listings of:

- (a) biotech issuers that do not meet any of the LR financial eligibility tests;
- (b) companies with weighted voting right ("WVR") structures; and
- (c) Greater China and international companies that wish to secondary list in Hong Kong under a new concessionary route.

HKEX has proposed various investor safeguards. These include detailed criteria for determining the suitability of applicants (new guidance letters on suitability for listing of biotech companies (**HKEX-GL92-18**), companies with a WVR structure (**HKEX-GL93-18**) and secondary listing as a Qualifying Issuer under Chapter 19C (**HKEX-GL94-18**)), a higher market capitalisation requirement, and enhanced disclosure requirements.

For pre-revenue biotech issuers, measures would be put in place around fundamental changes of principal business and a more streamlined de-listing process to address potential "shell" concerns. For WVR issuers, safeguards include limits on WVR power and rules to protect non-WVR holders' right to vote, in addition to enhanced corporate governance requirements.

Other amendments to the LR include:

- More guidance on examples of what HKEX would normally consider to be a

"Sophisticated Investor" and "meaningful investment" in relation to biotech issuers

- More flexibility on the exclusion of cornerstone investments and subscriptions by existing shareholders from the determination of a public float for pre-profit/pre-revenue biotech issuers
- Corporate Governance Committee to comprise entirely of independent non-executive directors to make recommendations to the board on certain matters
- Measures to facilitate confidential filings by eligible applicants under the new concessionary secondary listing route

Read the **consultation conclusions** paper on a listing regime for companies from emerging and innovative sectors and the relevant **presentation materials** for further details.

12. Codes on Takeovers and Mergers and Share Buy-Back Align with New Listing Regime

On 27 April, the Securities and Futures Commission ("SFC") **announced** amendments to the Codes on Takeovers and Mergers and Share Buy-backs ("the Codes"), which take effect from 30 April 2018, to bring the Codes in line with the new listing regime for companies from emerging and innovative sectors.

The new listing regime provides a concessionary route to secondary listing for Grandfathered Greater China Issuers, i.e. qualifying companies with a "centre of gravity" in Greater China which were primary listed on the New York Stock Exchange, Nasdaq or the Main Market of the London Stock Exchange (and belonging to the UK Financial Conduct Authority's "Premium Listing" segment) on or before 15 December 2017. Under the amendments, the Codes do not apply to these secondary-listed companies unless and until the bulk of trading of these companies has moved to Hong Kong and the company is treated as having a dual-primary listing in Hong Kong under the Listing Rules.

13. Proposed Enhancements to Investor Compensation Regime

On 27 April, SFC **launched** a two-month **consultation** on proposed enhancements to the Investor Compensation Regime. Comments are requested by 27 June 2018.

Key proposals include increasing the compensation limit from \$150,000 to \$500,000 per investor per default and covering northbound trading under Mainland-Hong Kong Stock Connect. In addition, the trigger levels for suspending and reinstating the Investor Compensation Fund levies are proposed to be raised from \$1.4 billion to \$3 billion and from \$1 billion to \$2 billion, respectively. Another proposal is to empower the SFC to make interim compensation payments in exceptional circumstances where delays may raise or increase systemic concerns.

Corporate Governance

14. Institute publishes major report on improving Hong Kong's corporate governance

The Institute conducted a **media briefing** and published a **substantial report** reflecting the findings of a comparative study of corporate governance in Hong Kong and four other relevant markets – the United States, the United Kingdom, Mainland China and Singapore. The aim of the study, which was conducted by Mr. Syren Johnstone and Prof. Say H. Goo of HKU's Asian Institute International Financial Law, was to make recommendations for the future development of Hong Kong's corporate governance to enhance the long-term competitiveness and attractiveness of the capital market. The report makes wide-ranging recommendations under the broad headings of "The Board", "Enforcement" and "Architecture and Policy". The Institute has issued copies of the report to, among others, the Hong Kong SAR Government, the Securities and Futures Commission and Hong Kong Exchanges and Clearing.

The media briefing was hosted by the Institute's chief executive, Raphael Ding, and co-author of the report, Syren Johnstone. The project was

overseen by the Institute's **Corporate Governance Working Group**, chaired by Mr. KM Wong.

Taxation

15. Announcements by the Inland Revenue Department ("IRD")

Members may wish to note the following matters:

- **Gazettal of**
 - The Stamp Duty (Amendment) (No. 2) Ordinance, referring to Stamping Circulars Nos. **04/2018** and **05/2018** for the new stamping arrangements. The **FAQs** and the **illustrative examples** for AVD - Scale 1 and Scale 2 have also been updated.
 - **Inland Revenue (Amendment) (No. 3) Bill 2018**, enhancing tax deduction for expenditure incurred by enterprises on qualifying research and development (R&D) activities to encourage more enterprises to conduct R&D activities in Hong Kong
- **A speech** by the Commissioner of Inland Revenue regarding the issue of tax returns and other updates and statistics.
- **A speech** on public finance at LegCo Finance Committee special meeting, by the Secretary for Financial Services and the Treasury, Mr. James Lau
- **A notification** of the issues of Employer's Returns of Remuneration and Pensions (Form BIR56A)
- **Stamp Duty statistics (March 2018)**
- **List of Qualifying Debt Instruments (as at 31 March 2018)**

Legislation & Other Initiatives

16. Anti-Money Laundering Notices

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

- **Government notice 2684**: An updated list of terrorists and terrorist associates has

been specified under the United Nations (Anti-Terrorism Measures) Ordinance.

- **Government notice 2537:** An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Legal notice 66:** The United Nations Sanctions (Somalia) (Amendment) Regulation 2018 has been published in the Gazette.
- **Hong Kong's Money Laundering and Terrorist Financing Risk Assessment Report** was issued by the Government on 30 April 2018.
- **Specially designated nationals and blocked persons list**, published by the U.S. Treasury's Office of Foreign Assets Control. More details on the **Resource Centre of the Treasury**.

For mandatory guidance and information on the AML/CFT requirements for members see the Institute's "**Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants**".

Useful Resources

17. Other Publications

(i) HKEX has published:

- Updated listing decisions on:
 - Whether, in the conduct of its business in the PRC, a listing applicant which was a party to a number of contract-based structures would render it unsuitable for listing due to legal questions associated with the contractual arrangements (**HKEX-LD43-3**)
- New guidance letters on:
 - Suitability for listing of biotech companies (**HKEX-GL92-18**)

- Suitability for listing with a WVR structure (**HKEX-GL93-18**)
- Suitability for secondary listing as a Qualifying Issuer under Chapter 19C (**HKEX-GL94-18**)

➤ Updated guidance letters on:

- IPO vetting and suitability for listing (**HKEX-GL68-13A**)
- Listed issuers using contractual arrangements for their businesses (**HKEX-GL77-14**)

➤ **Report** on initial public offering applications, delisting and suspensions as at 30 April

(ii) SFC has published:

➤ **Report on the Thematic Review of Alternative Liquidity Pools in Hong Kong**

➤ A speech entitled **New Technologies and Asset Management: A time of great promise and great peril?** by Julia Leung, Deputy Chief Executive Officer and Executive Director, Intermediaries

(iii) Other publications:

➤ **4 Key Steps for CFOs to Instill Integrated Thinking and Reporting** by IFAC

➤ Report on **Regulatory Divergence: Costs, Risks, Impacts** and relevant **press release** by IFAC and OECD

➤ **Firms of the Future—Building Advisory Services** by IFAC and Adrian & Partners AB

➤ **Sustainability and the board: What do directors need to know in 2018?** by Deloitte

➤ **Fintech: A game changer** by KPMG



- **3 Steps for a Seamless Executive Transition** by FTI Consulting
- **Are You Preparing Your Firm for the Gig Economy?** by CPA Practice Advisor
- **Blockchain: the future of record keeping** by In the Black
- **Automation in finance: Get your team ready** by Financial Management
- **How board members can perform oversight of cybersecurity risks** by Journal of Accountancy