



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@hkipa.org.hk >. Click [here](#) for past issues.

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Standard Setting Developments

Meeting Minutes

1. Auditing and Assurance Standards Committee Minutes

Summary of the **370th Meeting** of the Auditing and Assurance Standards Committee is now available.

2. Hong Kong Insurance Implementation Support Group

The Hong Kong Insurance Implementation Support Group's **12 September, 18 September** and **9 October** meeting summaries are now available.

Local Updates

3. Technical Bulletin

The Institute's Auditing and Assurance Standards Committee issued the **Implementation Guidance on Revised Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 400 Comfort Letters and Due Diligence Meetings**.

4. Invitations to Comment

The Institute is seeking comments on:

- **Exposure Draft Practice Note 830 (Revised) Reports by the Auditor under the Banking Ordinance** by **26 November**; and
- **Post-implementation Review of Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard** by **18 February 2019**.

International Updates

5. IFRS Updates

- October **IASB Update** and **workplan**
- September IASB TRG for IFRS 17 **meeting summary** and **podcast**
- **Podcast** and **press release** on October IASB meeting, which covered the next steps in implementation support for IFRS 17

6. Other Publication

- IAASB **published** an update on how it has addressed and plans to address professional skepticism within the standards.

Technical Learning and Support

7. New programmes

Workshop: **HKFRS for Private Entities** (28 November)

Seminar: **Industry Update Relating to Licensed Corporations** (29 November)

Workshop for audit staff and senior (November and December)

Workshop: **A Guide to Quality Control Application** (November and December)

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. [LinkedIn](#)

Follow our [LinkedIn](#) for key developments in financial reporting, auditing and ethics.

Advocacy and Practice Development/Member Support

Professional Accountants in Business

10. Company Director Convicted for Giving False Information to Companies Registry

A director of a Hong Kong company was prosecuted by the Companies Registry ("CR") under section 750(6) of the Companies Ordinance for knowingly or recklessly giving false or misleading information to the Registrar of Companies. The case relates to false information provided by the defendant in the application form which was lodged with the CR for deregistration of a company.

The director pleaded guilty and was fined \$15,000 for the charge.

Read the [press release](#) for details.

11. COSO and WBCSD Guidance on ESG-related Risks

The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and the World Business Council for Sustainable Development ("WBCSD") have recently [released](#) "Guidance for Applying Enterprise Risk Management ("ERM") to Environmental, Social and Governance ("ESG")-related Risks".

This [Guidance](#), which aligns with COSO's widely accepted ERM – Integrating with Strategy and Performance, is intended to bring ESG risks and opportunities into a clearer focus for mainstream business and other organizations around the world. It is designed to enhance organizations' resiliency as they confront the increasing prevalence and severity of ESG-related risks, ranging from extreme weather events to product safety recalls.

Read the [Executive Summary](#) for further detail.

12. Transforming Hong Kong Through Entrepreneurship

KPMG China and Alibaba Hong Kong Entrepreneurs Fund's joint study on [Transforming Hong Kong Through Entrepreneurship](#) looks at the key challenges and opportunities facing Hong Kong's entrepreneurial ecosystem. It assesses the impact entrepreneurship is having on the economy and society as well as identifies the key gaps in the start-up ecosystem in order to drive the ongoing development of Hong Kong's new economy.

The study targeted start-up entrepreneurs, Key Opinion Leaders and future business leaders to answer four critical questions:

- What are the defining factors driving entrepreneurship?
- What mindset is required for entrepreneurship?
- How is Hong Kong perceived as a start-up destination?
- How is Hong Kong's entrepreneur ecosystem capitalising the Greater Bay Area?

Small and Medium Practitioners

13. IFAC SMP Survey Reveals Digital Transformation Talent Management as Key to Growth for SMPs

International Federation of Accountants ("IFAC") conducted the 2018 Global SMP Survey early this year and has recently [released](#) the results. Designed to be completed by senior SMP professionals, whose clients are predominately small- and medium-sized entities, the Survey takes a snapshot of key issues, and tracks important trends and developments, facing this critical sector.

The Survey received more than 6,000 responses from 150 countries.

According to the Survey results, over a quarter of SMPs plan to allocate more than 10% of practice revenue over the next year to

technology investment, reflecting its critical importance in practice management and operations. As transactional activities become increasingly automated, firms are leveraging technology to provide business insights from data analytics as a new service offering. A significant majority of SMPs provide business advisory and consulting services, with a majority predicting a moderate or substantial fee revenue growth over the next 12 months in this service line.

Talent remains a top challenge for SMPs. The majority have difficulty attracting next generation talent, with 66% stating the number one reason is lack of candidates with the right mix of skills. This highlights the importance of continuing education and the development of new competencies for the digital global economy.

Corporate Finance

14. Institute Comments on Review Structure in relation to Listing Committee Decisions

The Institute issued [a submission](#) on 12 October responding to HKEX's proposals to streamline the review process for listing matters and enhance transparency in decision-making. While we support the general direction of HKEX's proposals, the Institute suggests that qualified senior and experienced market participants/ professionals, who have not served on the Listing Committee, should be the members of the proposed new independent review committee (ILRC). This can increase the independence and competence level of the new ILRC for replacing the existing two-level review process.

In addition, the Institute considered that the authority of the ILRC, provided that it is formed from independent and suitably qualified members, should be strengthened. In particular, the ILRC's decisions should be regarded as final and conclusive to expedite the review process.

15. SFC Consultation Conclusions on Amendments to Anti-money Laundering Guidelines

The SFC published **Consultation Conclusions** on amendments to anti-money laundering and counter-terrorist financing ("AML/CFT") guidelines on 12 October.

According to the revised guidelines, international organization politically exposed persons (PEPs) will be included in the categories of PEPs. Enhanced due diligence procedures for foreign PEPs will be applied by firms on the domestic PEPs and international organisation PEPs, if their business relationships with the firm are assessed to be of high risk.

Firms are also given flexibility to adopt reasonable risk-based measures to verify customer identification information.

The revised AML/CFT guidelines was gazetted on 19 October 2018 and take effect on 1 November 2018. A summary of the consultation conclusion is set out in the [press release](#).

16. SFC Consultation Conclusions on Financial Resources Rules

The SFC published **Consultation Conclusions** on proposed amendments to update the Securities and Futures (Financial Resources) Rules (FRR) on 19 October.

Main changes include relaxing the treatment for foreign currencies subject to exchange control, clarifying the treatment for non-freely floating foreign currencies, introducing and updating haircut percentages for certain types of securities and investments and refining the treatments for amounts receivable arising from securities transactions etc.

The proposed amendments were gazetted and will be submitted to the Legislative Council for negative vetting, which is expected to be effective on 1 April 2019, with the exception of amendments related to a new accounting standard which will take effect on 1 January 2019.

A summary of the consultation conclusion is set out in the [press release](#).

Taxation

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

Members may wish to be aware of the following matters:

- **New requirements relating to double taxation relief on salaries tax—transitional arrangements.**
- **Passing of the Inland Revenue (Amendment) (No. 4) Bill 2018**, which gives effect to a tax deduction under salaries tax and personal assessment to people who purchase eligible health insurance products for themselves or their specified relatives under the Voluntary Health Insurance Scheme (VHIS), starting from April 1, 2019.
- Gazettal of:
 - **Inland Revenue (Amendment) (No. 7) Ordinance 2018** to provide enhanced tax deduction for the expenditures incurred by enterprises on research and development activities in Hong Kong.
 - **Inland Revenue (Amendment) (No. 7) Bill 2018**, which, among other things seeks to align the tax treatment of financial instruments with their accounting treatment. See also the [earlier announcement](#).
 - **The Financial Institutions (Resolution) (Loss-absorbing Capacity (LAC) Requirements – Banking Sector) Rules (the Rules), and the Inland Revenue (Amendment) (No. 6) Bill 2018**, in view of the commencement of the Financial Institutions (Resolution) Ordinance (Cap. 628) to prescribe minimum LAC requirements for authorised institutions and their group companies.

- [A Legal Notice](#) to authorise a change in the rate of interest payable on Tax Reserve Certificates.
- [Stamp Duty statistics \(September 2018\)](#).

Legislation & Other Initiatives

18. Anti-Money Laundering Notices

Members should note the following notice and public statement in relation to AML/CFT:

- [Government Notice 7778](#): Pursuant to section 133(1) of the Insurance Ordinance (Chapter 41) and section 7 of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615), the revised Guideline on Anti-Money Laundering and Counter-Terrorist Financing ('GL3') is published by the Insurance Authority. The revised Guideline comes into operation on 1 November 2018, and shall supersede the previous version of the Guideline.
- Subsequent to the Financial Action Task Force (FATF) Plenary and Working Group meetings held between 14 to 19 October 2018, FATF issued [a public statement](#) regarding two jurisdictions, and a document titled "[Improving Global AML/CFT Compliance: On-going Process](#)" concerning eleven other jurisdictions. Members are advised to take note of these materials.

For updates on lists of terrorists, terrorist associates and relevant persons/ entities under United Nations ("UN") sanctions, members should also refer to [the Institute's AML page](#).

19. AML/CFT Guidance

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](#)".

Members who are licensed trust or company service providers should also see the [Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers](#), by Companies Registry.

Members should be aware of the [Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report](#) (in particular Chapter 6, covering designated non-financial businesses and professions), which indicates ML/TF risks and vulnerabilities in the Hong Kong market.

Useful Resources

20. Other Publications

- (i) The HKEX has published:
 - [Report](#) on initial public offering applications, delisting and suspensions as at 31 October 2018
- (ii) [Companies Registry Trading Fund Annual Report 2017-18](#)
- (iii) [Land Registry Trading Fund Annual Report 2017/18](#)
- (iv) Other publications:
 - [The International Code of Ethics for Professional Accountants: Key Areas of Focus for SMEs and SMPs](#) by IFAC SMP Committee
 - [The shifting shape of ethics - CFOs from around the world discuss ethics and the future](#) by Financial Management
 - [IFAC TAG Webinar on Data Analytics](#) by IFAC Technology Advisory Group
 - [Needed: A New Approach To Risk Modeling in An Asymmetric World](#) by FTI Consulting



- **Leading agile transformation: The new capabilities leaders need to build 21st-century organizations** by McKinsey & Company
- **Three Ways Small Firms Can Turn Challenges into Opportunities** by AICPA
- **How the skill set for today's CFO is changing** by Journal of Accountancy
- **Our Approach to Employee Engagement is Not Working** by Forbes
- **Growing globally: How SMPs can unlock international ambitions** by ACCA
- **Why AI is the CFO's Strategic Ally** by CFO Innovation