



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

TechWatch

News at a glance



Issue 202 • August 2019

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

Local Updates

1. Financial Reporting Standards Committee Minutes

Minutes of the **250th meeting** are now available.

2. Auditing and Assurance Standards Committee Minutes

Minutes of the **375th meeting** are now available.

3. Members' Handbook Update No. 230 and No.231

Update No. 230 contains amendments to Accounting Bulletins 3 (Revised), 5 and 6 to reflect requirements in the Company Ordinance Cap. 622 as amended by the Companies (Amendment) (No. 2) Ordinance 2018, which came into effect on 1 February 2019.

Update No. 231 contains amendments to accounting standards that are effective for annual reporting periods beginning on or after 1 January 2019.

4. Invitations to Comment

The Institute is seeking comments on:

- **IASB Exposure Draft** ED/2019/4 *Amendments to IFRS 17* by **19 August 2019**.
- **IASB Exposure Draft** ED/2019/3 *Reference to the Conceptual Framework - Proposed amendments to IFRS 3* by **23 August 2019**.
- **IASB Exposure Draft** ED/2019/5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* by **14 October 2019**.
- **IASB Exposure Draft** ED/2019/6 *Disclosure of Accounting Policies* by **11 October 2019**.

- **IAASB Discussion Paper** *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs* by **12 August 2019**.

- **Exposure Drafts** PN 620.2 (Revised) *Communications between auditors and the Insurance Authority*, PN 810.1 (Revised) *Licensed Insurance Broker Companies – Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules*, and PN 810.2 (Revised) *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* by **29 August 2019**.

- **IESBA Exposure Draft** *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants* by **30 September 2019**.

5. Q&As on revenue recognition considerations in the engineering and construction industries

The Institute issued **Q&As** on revenue recognition considerations in the engineering and construction industries when applying HKFRS 15 *Revenue from Contracts with Customers*.

6. Feedback Statement on the Post Implementation Review of the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard

In 2018 the Institute issued a Request for Information to conduct a Post Implementation Review ("PIR") of the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard.

In July, the Institute published a **Feedback Statement** which included an analysis of the feedback received during the PIR and the possible next steps it may take. The **comment letters** received and **summaries of outreach meetings** held have also been published.

International Updates

7. Audit and Assurance

- IFAC Audit of Less Complex Entities [Survey](#)
- IAASB June 2019 Meeting [Highlights and Decisions](#)

8. Ethics

- IESBA June 2019 Meeting [Highlights and Decisions](#)

9. Financial Reporting

- July 2019 IASB [Update](#) and [Podcast](#), which include summaries of the IASB's monthly meeting and its joint meeting with the Financial Accounting Standards Board (FASB).
- IASB [Investor Update Newsletter](#) highlighting the events and publications that are of interest to investors.
- [Webcast](#) published by the IFRS Interpretations Committee summarising its [discussion and conclusions](#) on curing of a credit-impaired financial asset and relevant requirements in IFRS 9 *Financial Instruments*.
- First of a new quarterly [podcast](#) by the IFRS Foundation that focuses on the work undertaken by the IASB and the IFRS Interpretations Committee to support consistent application of IFRS Standards.
- IASB [webinar](#) providing an overview of the [Exposure Draft Amendments to IFRS 17](#).
- IFRS Foundation [webcast](#) discussing some of the main elements of due process around agenda decisions.

Useful Resources

10. 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](#)

11. [LinkedIn](#)

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

Advocacy and Practice Development/Member Support

Professional Accountants in Business

12. Conduct and Duties of Directors when Considering Corporate Acquisitions or Disposals

The Securities and Futures Commission ("SFC") has recently issued a [statement](#) which outlines recurring types of misconduct in relation to corporate acquisitions and disposals that have given rise to concerns and, in some cases, led to intervention by the SFC. These include:

- Lack of independent professional valuation
- Lack of independent judgment and accountability
- Little independent due diligence on quality of the target businesses' earnings
- Unfair presentation of comparables
- Insufficient assessment of negative impact on the financial position of the listed issuer
- Lack of verification of the vendor's ability to pay compensation
- Undisclosed relationship or arrangement between suspicious connected parties

Directors and their advisers are reminded to comply with their statutory and other legal duties and conduct proper investigation and due diligence when evaluating or approving the acquisition or disposal of a company or a business.

Small and Medium Practices

13. Highlights of June IFAC SMPC meeting

The [SMP Committee of the International Federation of Accountants](#) ("IFAC") comprises volunteers representing a broad range of geographies and professional backgrounds. It supports IFAC's work in three main areas, namely, standard setting, resources and tools, as well as speaking out. Regular meetings are held each year for representatives from different jurisdictions to

share their views. Johnson Kong, the Institute's vice president and representative attended the meeting on 24-25 June in New York, at which various SMP-related topics were discussed, including:

- IFAC SMP-SME work plan 2019 progress update
- International Auditing and Assurance Standard Board Activities – update & work plan
- Audit of less complex entities – exploring the options
- International Ethics Standards board for Accountants Activities – update & work plan
- Compilation of global ethical initiatives
- The SMP of the future initiatives

Meeting highlights and relevant resources are now available [online](#).

Corporate Finance

14. HKEX Publishes Conclusions on Proposed Rule Changes Associated with Backdoor Listing and Shell Activities

Hong Kong Exchange and Clearing ("HKEX") published [consultation conclusions](#) on 26 July 2019 on the proposed rule changes associated with backdoor listing and shell activities to strengthen the long-term health, quality and sustainability of the market.

There were 121 responses received by the HKEX to the [consultation paper](#), including the [Institute's submission](#). After taking into consideration comments from respondents, HKEX decided to implement the proposals with the following major modifications:

- Revising the indicative factors under the "change in control or de facto control" factor of the principle-based test of the Reverse Takeover ("RTO") Rules to the following: a change in (i) controlling shareholder of the issuer; or (ii) the single largest substantial shareholder who is able to exercise effective control;
- Removing references to greenfield

operations, equity fundraisings and termination of business from the “series of transactions and/or arrangements” factor of the principle-based test of the RTO Rules, to address concerns about possible application of the RTO Rules to issuers’ transactions in the normal course of business;

- Removing the proposal to apply additional requirements where the issuer aborts transactions that are considered part of a series of transactions, and there is a “pre-ordained” strategy to circumvent the new listing requirements, to address concerns about regulatory uncertainty;
- Removing the proposed RTO compliance requirement for the enlarged group to meet Listing Rule 8.05 applicable to Listing Rule 13.24 issuers, to address concerns that smaller issuers would be particularly restricted; and
- Revising the proposed additional requirements on issuers that may use the extreme transaction category, to address concerns about unfair treatment of mid- or small-sized issuers.

The rules amendments will be effective on 1 October 2019. HKEX has also published (i) three new guidance letters to provide guidance on the application of the Listing Rules as amended; and (ii) a frequently asked question on the notifiable transaction requirements relating to securities transactions.

Please refer to the [press release](#) for details.

15. SFC issues Statement on Backdoor Listings and Shell Activities

The SFC published a [statement](#), on 26 July 2019, explaining its general approach to utilising its statutory powers under the Securities and Futures (Stock Market Listing) Rules (“SMLR”) and the Securities and Futures Ordinance (“SFO”) to tackle backdoor listings and shell activities.

The SFC will work together with the HKEX to monitor the market and will intervene using its

statutory powers under the SMLR and the SFO, when appropriate, to tackle these activities which harm the reputation and integrity of our markets.

The SFC will take into consideration the facts and circumstances of each case before deciding whether to exercise its statutory powers, including whether there are any red flags indicating a possible scheme designed to mislead regulators and/or the investing public or to circumvent applicable rules, or suggesting that other forms of serious misconduct have been or will be committed.

Please refer to the [press release](#) for details.

Taxation

16. Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- [Mainland and HKSAR sign Fifth Protocol to Arrangement for Avoidance of Double Taxation](#)
- [DIPN 28 \(Revised\) – Profits Tax: Deduction of Foreign Taxes](#)
- [DIPN 58 – Transfer Pricing Documentation and Country-by-Country Reports](#)
- [DIPN 59 – Transfer Pricing Between Associated Persons](#)
- [DIPN 60 – Attribution of Profits to Permanent Establishments in Hong Kong](#)
- [Stamp Duty statistics \(June 2019\)](#)

Legislation & Other Initiatives

17. Anti-Money Laundering Notices

For the current lists of terrorists, terrorist associates and relevant persons/ entities under United Nations (“UN”) sanctions, members should refer to [the Institute's AML webpage](#) which is updated regularly. The UN sanctions webpage of the [Commerce and Economic Development Bureau](#) contains consolidated lists of the sanctions currently in force in Hong Kong.

18. Anti-Money Laundering/ Counter-Terrorist Financing ("AML/CFT") Guidance

For mandatory guidelines and information from the Institute on the AML/CFT requirements for members, see the Institute's, "[Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants](#)". Members may also wish to be aware of the Financial Action Task Force ("FATF")'s recently-published, [Guidance for a Risk-based Approach for the Accounting Profession](#).

Members who are licensed to provide trust or company services should see the [Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers](#), issued by the Companies Registry, and may also be interested to note the FATF's recently-published, [Guidance for a Risk-based Approach for Trust and Company Service Providers](#).

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, including accountants), which indicates the money laundering/ terrorist financing risks and vulnerabilities in the Hong Kong market.

Useful Resources

19. Other Publications

(i) The HKEX has published:

- [Report](#) on initial public offering applications, delisting and suspensions as at 31 July 2019
- [New Review Structure for Listing Committee Decisions and Appointment of Inaugural Listing Review Committee](#)
- [Research report](#) on Hong Kong's role in supporting the fund-raising of Mainland private enterprises

(ii) The SFC has published:

- [Statement](#) on the Conduct and Duties of Directors when Considering Corporate Acquisitions or Disposals
- [Research paper no. 65](#): Half-yearly Review of the Global and Local Securities Markets
- [Findings of Asset and Wealth Management Activities Survey 2018](#)

(iii) The Financial Reporting Council has published:

- [Appointments to Financial Reporting Review Panel](#)

(iv) Financial Services Development Council has published:

- [Annual Report 2018-19](#) and corresponding [Press Release](#)

(v) Other publications:

- [Member Organization Support for SMPs of the Future](#) by IFAC
- [How Data Analytics, A.I. & Automation Are Being Integrated Into External Audit – Part 1 & 2](#) by CPA Australia
- [The Case for a Forward-Looking Profession](#) by CPA Canada
- [What Auditors Do: The Scope of Audit](#) by ICAEW
- [Despite Tariffs, Chinese Manufacturing Still the Most Cost-Effective Choice for U.S. Importers](#) by FTI Consulting
- [How Firms of Any Size Can Innovate](#) by Journal of Accountancy
- [Top influencing skills accountants need](#) by In the Black
- [Leading with Trust](#) by Harvard



Business Review