



TechWatch

News at a glance

Issue 158 • December 2015

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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Financial Reporting, Auditing and Ethics

Technical Learning and Support

1. Technical Learning and Support Programme in December 2015

The Institute will run a series of technical update evenings ("TUE"), workshops and seminars on accounting and auditing in December 2015:

- [Seminar on revised Auditor's Report](#)
- [TUE session on IFRS/HKFRS 9 Financial Instruments](#)

To secure a seat, please register early by completing the registration forms (accessible by clicking on the above event titles).

Members' Handbook

2. Handbook Update No. 176

[Update No. 176](#) contains revised 1.101A *Guidelines for the Chairman and the Committee on Administering the Disciplinary Committee Proceedings Rules*.

Financial Reporting

3. The Institute's Financial Reporting Standards Committee Meeting Minutes

The [minutes](#) for the FRSC meeting held on 8 September 2015 is now available and covers the following key items:

- IASB ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28*;
- Working Group meeting summaries on IASB EDs;
- IASB Request for Views *2015 Agenda Consultation*;
- Companies Ordinance Application Issues Working Group; and

- FRSC's meeting with the IASB representatives on 12 October.

4. Recent Invitations to Comment on IASB EDs

- (i) IASB ED/2015/8 *IFRS Practice Statement: Application of Materiality to Financial Statements*

The Institute issued an [Invitation to Comment](#) on the IASB Exposure Draft ("ED") ED/2015/8 and requested for comments by **22 January 2016**.

The draft guidance, in the form of a draft Practice Statement, has been developed in response to concerns that management are often uncertain about how to apply the concept of materiality and therefore use the disclosure requirements in the Standards as a checklist.

Whether information is material or not depends on a range of factors and entity-specific circumstances, and is a matter of judgement. Determining what information is material also requires an understanding of the users of the financial statements and the decisions that they make based on those financial statements.

Improving the quality and quantity of disclosures requires joint efforts by auditors, regulators, companies and standard-setters. The IASB has therefore consulted with the International Auditing and Assurance Standards Board ("IAASB") and the International Organization of Securities Commissions during the development of the draft Practice Statement.

The draft guidance on materiality complements an amendment made to IAS 1 *Presentation of Financial Statements* by the IASB in 2014, which clarified that companies do not need to apply the specific disclosure requirements in Standards if the related information is not material. It also specified that a company should consider whether to provide additional disclosures

when compliance with the specific requirements would be insufficient in disclosing material information.

(ii) IASB ED/2015/9 *Transfers of Investment Property* (Proposed amendment to IAS 40)

The Institute issued an [Invitation to Comment](#) on the IASB ED/2015/9 and requested for comments by **19 February 2016**.

The ED proposes a narrow-scope amendment to IAS 40 *Investment Property* to clarify the guidance on transfers to, or from, investment properties.

Paragraph 57 of IAS 40 provides guidance on transfers to, or from, investment properties. However, it does not specifically address whether a property under construction or development that was previously classified as inventory could be transferred to investment property when there is an evident change in use.

The IASB proposes to amend paragraph 57 of IAS 40 to:

- state that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred; and
- re-characterize the list of circumstances set out in paragraph 57(a) - (d) as a non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list.

(iii) IASB ED/2015/10 *Annual Improvements to IFRSs 2014-2016 Cycle*

The Institute issued an [Invitation to Comment](#) on the IASB ED/2015/10 and requested for comments by **11 January 2016**.

The IASB has a streamlined process for dealing efficiently with issues related to inconsistencies in the application of

Standards and where there is a need to clarify the wording in a Standard. This entails combining a collection of proposed narrow-scope amendments into annual improvement cycles and exposing them for public comment collectively.

The ED covers proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 12 *Disclosure of Interest in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures*.

Audit & Assurance

5. Institute Comments on IAASB ED

The Institute [commented](#) on IAASB ED on *Proposed ISA 810 (Revised) Engagements to Report on Summary Financial Statements*.

Though the proposed ISA 810 does not contain all the enhancements from ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* such as the statement about independence and other relevant ethical responsibilities or the disclosure of the name of the engagement partner of listed entities, the Institute agrees with the IAASB's approach to revising proposed ISA 810.

The form and contents of the summary financial statements ("Summary Financial Report") are set out in the Companies Regulation ("Regulation"). The Regulation requires that the auditor forms an opinion as to whether the Summary Financial Report is consistent with the relevant financial documents or reporting documents from which it is derived and whether it complies with the requirements of relevant legislation. The auditor is required to state whether in his/her opinion the Summary Financial Report is consistent with the annual financial statements, directors' report and auditor's report, and whether the auditor's report concerned is qualified or otherwise modified.

Upon finalization of the proposed ISA 810, the Institute would supplement it with local guidance to reflect the requirements set out in the Regulation.

International Meetings

6. Asian-Oceanian Standard-Setters Group

The AOSSG held its annual meeting on 25-26 November in Seoul, Korea. The meeting marked a change in chairmanship from the Institute to the Korea Accounting Standards Board.

The meeting discussed the following key topics:

- Conceptual Framework
- Disclosure Initiative
- Revenue Recognition
- Rate Regulation
- Insurance Contracts
- IASB's 2015 Agenda Consultation
- IFRS implementation issues in the region

A Communique on the meeting will be available on the [AOSSG](#) website shortly.

7. International Accounting Standards Board

The IASB met on 18-19 November 2015 and discussed the following topics:

- Fair Value Measurement
- Post-employment benefits
- Goodwill and Impairment
- Insurance Contracts
- Share-based Payment research project
- IFRS Implementation Issues

Click to view the [IASB Update](#) for this meeting. The IASB next meets on 14-18 December 2015.

8. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets on [12-13 January 2016](#).

9. IASB Accounting Standards Advisory Forum

The IASB ASAF met on 7-8 December 2015 and discussed the following key topics:

- Disclosure Initiative
- Conceptual Framework
- Post-employment Benefits
- Goodwill and Impairment
- Different effective dates of IFRS and the new Insurance Contracts Standards
- Business Combinations Under Common Control
- The Equity Method

The Asian-Oceanian Standard-Setters Group is a member of the IASB ASAF. The Institute provided its views and the views or concerns of Hong Kong stakeholders on most of the key topics above to the AOSSG Chair for representation at the ASAF meeting.

The IASB ASAF next meets on 7-8 April 2016. Click [here](#) for details of the next meeting and the meeting summary for the December 2015 meeting.

10. International Auditing and Assurance Standards Board

The IAASB met on 7-11 December 2015 and discussed the following key topics:

- Enhancing Audit Quality
- Proposed ISA 810 (Revised) *Engagements to Report on Summary Financial Statements*
- ISA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*
- Professional Skepticism

Click to view the [meeting summary](#) for this meeting. The IAASB next meets on 14-18 March 2016.

11. International Ethics Standards Board for Accountants

The IESBA met on 30 November-4 December 2015 and discussed the following key topics:

- Safeguards
- Structure of the Code of Ethics for Professional Accountants
- Non-Compliance with Laws and Regulations
- Long Association
- Part C of the Code of Ethics for Professional Accountants
- Fee-Related Matters Initiative

Click to view the [meeting summary](#) for this meeting. The IESBA next meets on 14-16 March 2015.

Useful Resources

12. Publications

Deloitte published [model financial statements](#) for the year ended 31 December 2015.

EY published an [update](#) about the upcoming changes in IFRS.

An IASB member wrote an [article](#) to discuss what kind of accounting standards the IASB should write.

IFAC published an [article](#) *Creating Value with Integrated Thinking: The Role of Professional Accountants* to facilitate the contribution of CPAs to integrated thinking.

Comment Due Dates

Comments to the Institute on the following consultation documents are due by:

11 December 2015: IASB DI/2015/1
Uncertainty over Income Tax Treatments

11 December 2015: IASB DI/2015/2 *Foreign Currency Transactions and Advance Consideration*

11 January 2016: IASB ED/2015/10 *Annual Improvements to IFRSs 2014-2016 Cycle*

22 January 2016: IASB ED/2015/8 *IFRS Practice Statement: Application of Materiality to Financial Statements*

19 February 2016: IASB ED/2015/9 *Transfers of Investment Property* (Proposed amendment to IAS 40)

Specialist Practices, Business Members and Advocacy

Corporate Governance

13. Results of the 2015 Best Corporate Governance Disclosure Awards

The Best Corporate Governance Disclosure Awards 2015 ("Awards") were successfully concluded with the presentation ceremony held at a luncheon on 30 November. The guest of honour was Secretary for Financial Services and the Treasury, Prof. K C Chan, who, in his speech, acknowledged the Awards as a prime example of the Institute's efforts in promoting corporate governance and raising the bar for corporate stewardship in Hong Kong.

The results of the 2015 Awards were announced at a [media briefing](#) held on 26 November. A diamond award was given out only to CLP Holdings Ltd., in the Hang Seng Index category this year. The judges considered that many Hong Kong listed companies and not-for-profit organizations still had more to do to align their corporate governance practices and disclosures with best practices in Hong Kong. The Institute is pleased to be able to applaud a first-time awardee this year and other companies winning one of the main awards for the first time (denoted by* in the list below). The initial vetting was increased to over 600 annual reports this year from around 220 previously, thus improving the chances of identifying strong candidates not otherwise entering the competition or selected for review.

The complete list of winners of the 2015 Awards is as follows:

HSI Category

Diamond – CLP Holdings Limited
Gold – Hong Kong Exchanges and Clearing 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*
Gold – Transport International Holdings Limited

H-share Companies and Other Mainland Enterprises Category

Platinum - Lenovo Group Limited
Gold – China CITIC Bank Corporation Limited*
Gold – Shenzhen Expressway Company Limited
Special Mention – COSCO Pacific Limited

Public Sector/Not-for-profit Category

Gold – Airport Authority Hong Kong
Gold – Securities and Futures Commission
Special Mention – Mandatory Provident Fund Schemes Authority

Sustainability and Social Responsibility Reporting Award

HSI Category – CLP Holdings Limited
Non-HSI (Large Market Capitalization) Category – The Hongkong and Shanghai Hotels, Limited*
Non-HSI (Large Market Capitalization) Category – VTech Holdings Limited

The [judges' report](#) contains commentaries on the winners' corporate governance practices and disclosures, general observations by the judges and recent local and international corporate governance developments, as well as other background information.

Professional Accountants in Business

14. HKEx Reports on Implementation of Corporate Governance Code and Corporate Governance Report

Hong Kong Exchanges and Clearing ("HKEx") has published the findings of its latest review of listed issuers' corporate governance practices, entitled [Analysis of Corporate Governance Practice Disclosure in 2014 Annual Reports](#). The review analyzed the 2014 annual reports of 1,237 listed issuers, covering the financial period from 1 January to 31 December 2014.

Findings of the review included the following:

- 35% of issuers complied with all the Code Provisions ("CPs").
- 98% of issuers complied with 70 or more CPs, out of 75.
- Issuers with a larger market capitalization achieved a higher overall compliance rate than those with a smaller market capitalization.

The review also included HKEx's comments on the quality of the explanations in relation to the five CPs with the lowest compliance rates.

15. IFAC Releases New Thought Paper Setting Out a Vision for Integrated Thinking

With an aim to facilitate the contribution of professional accountants to integrated thinking, and help align capital allocation, corporate behavior, financial stability and sustainable development, International Federation of Accountants ("IFAC") has published a new thought paper: **Creating Value with Integrated Thinking: The Role of Professional Accountants**. The paper sets out a vision for integrated thinking and explores what professional accountants working in the public and private sectors can do in practical terms to facilitate it in their organization, regardless of whether their organization is planning to publish an integrated report.

The paper identifies five key elements, which, if implemented, can lead to more effective organizations. This ultimately provides the basis for shifting from today's financially oriented reporting to integrated reporting. The paper also discusses how integrated reporting improves and is improved by integrated thinking. It also explores what integrated thinking involves, as well as its challenges and how they can be overcome, and advances a meaningful understanding of its role and power.

Corporate Finance

16. SFC Proposes Changes to the Automated Trading Services Guidelines

On 20 November, the Securities and Futures Commission ("SFC") released a **consultation paper** on proposed changes to the Guidelines for the Regulation of Automated Trading Services ("ATS"), with comments requested by **31 December 2015**.

The proposals reflect regulatory and market developments and mainly cover the implementation of the regulation of over-the-counter ("OTC") derivative transactions, setting out more specific requirements for central counterparties that wish to provide clearing services for OTC derivative transactions. They also align the guidelines with international standards and practices and codify existing practices.

Following the consultation, the SFC plans to implement the revised ATS guidelines at the same time as the implementation of the subsidiary legislation for mandatory clearing obligation for OTC derivatives transactions, which is expected to be in mid-2016.

17. SFC Proposes to Expand Short Position Reporting

On 27 November, the SFC launched a **consultation** proposes to extend the scope of short position reporting to all securities that can be short sold under the rules of the Stock Exchange of Hong Kong, with comments requested by **31 December 2015**.

Under the proposed expanded regime, which will also cover collective investment schemes ("CIS"), the reporting threshold for stocks will remain unchanged while the threshold for CIS will be set at \$30 million.

Restructuring and Insolvency

18. Financial Institutions Resolutions Bill Introduced into the Legislative Council

The government has introduced the **Financial Institutions Resolutions Bill** into the Legislative Council ("LegCo"). The bill aims to establish a framework for dealing with systemically important financial institutions that face financial distress, so as to reduce any risks to the stability of the financial system as a whole. The proposals seek to implement international standards promulgated by the Financial Stability Board. The Institute's Restructuring and Insolvency Faculty made a **submission** during the consultation phase of the proposals.

19. New Arrangement for Nominated Insolvency Practitioners to Attend the First Meetings in Bankruptcy and Liquidation Cases

The Official Receiver's Office informs us that, after reviewing the current arrangements and considering creditors' interests and rights, as well as the need to ensure smooth meeting proceedings, it is proposed to introduce new arrangements for permitting nominated insolvency practitioners to attend the first meetings in bankruptcy and liquidation cases. Click [here](#) for the details of the new arrangements, which will take effect on 1 February 2016. Any enquiries on this matter should be directed to the Official Receiver's Office.

Taxation

20. Announcements by the Inland Revenue Department

- Hong Kong **has signed** an agreement on the avoidance of double taxation with Romania.
- **Inland Revenue (Amendment) (No.4) Bill** gazetted. The bill aims to introduce tax concessions for corporate treasury centres ("CTCs"), enhance the interest deduction rules for intra-group financing and clarify the tax treatment of regulatory capital securities

issued by banks, in compliance with Basel III requirements.

- **LegCo question on CTCs**
- **Taxpayer given immediate jail term after review of sentence for falsely claiming self-education allowances.** (See [TechWatch Issue 154.](#))

Legislation & Other Initiatives

21. Anti-Money Laundering Notices

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

- **Government notice 8098:** An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 8660:** An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 8915:** An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 8916:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Afghanistan) Regulation 2012.
- **Government notice 8917:** An updated list of relevant persons has been specified under the United Nations Sanctions (Yemen) Regulation 2015 ("the Yemen Regulation").
- **Government notice 8918:** An updated list of designated persons has been specified for the purpose of arms embargo measures under the Yemen Regulation.
- **Government notice 8919:** An updated list of relevant persons and entities has been specified under the United Nations Sanctions (Central African Republic) Regulation 2015.

- **Money Laundering through the Physical Transportation of Cash:** This joint Financial Action Task Force ("FATF")/ Middle East & North Africa Financial Action Task Force report identifies methods and techniques that criminals use to transport funds across the border, and the main challenges that law enforcement agencies face in detecting the physical transportation of cash.
- **Guidance on AML/CFT-related data and statistics:** The FATF guidance provides examples of useful data that jurisdictions may collect, and options for the collection, analysis and presentation of AML/CFT statistics.
- **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

22. 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.

23. Other Publications

(i) HKEx has published:

- Updated listing decision in relation to whether the proposed distribution of a wholly owned subsidiary's shares in

specie by a listed issuers would be regarded as a transaction for the issuer under Chapter 14 and/or Chapter 14A of the Listing Rules ([HKEx-LD75-4](#))

- Updated guidance on documentary requirements and administrative matters for CIS applications - effective for CIS applications made on or after 10 November 2014 ([HKEx-GL79-14](#))

- [A country guide on India](#)

- [Report](#) on initial public offering applications, delisting and suspensions (as at 30 November)

(ii) SFC has published its [Quarterly Report 2015-16](#) and the relevant [press release](#), summarizing key developments from July to September 2015.

(iii) [The Standing Committee on Company Law Reform 2014-15 annual report](#) and the related [press release](#)

(iv) Other publications:

- [The revolution in contract law brought about by the new Contracts \(Rights of Third Parties\) Ordinance](#), ONC Lawyers

- IFAC study – [Nexus 2: The accountancy profession – a global value add](#) – shows that the accountancy profession is strongly linked to national economic growth and improved living standards

- [Preparing IT systems and organizations for the Internet of Things](#), McKinsey & Company

- [Are you giving – and receiving – the best feedback on career development](#), CFO Innovation

- [Is an international accounting association the global advantage your firm needs](#), BF Consulting