



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



# TechWatch

News at a glance

Issue 112 • February 2012

TechWatch updates you on technical developments in financial reporting, auditing, regulation and business. The Institute welcomes your comment, emailed to < [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk) >. Click [here](#) for past issues.

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*Financial Reporting, Auditing and Ethics* by:  
Steve Ong (Editor), Ben Lo, Selene Ho, Winnie Chan, Katherine Leung

*Specialist Practices, Business Members and Advocacy* by:  
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## Financial Reporting, Auditing and Ethics

### New!

#### 1. Financial Reporting Forum – IASB Re-expose *Revenue from Contracts with Customers*

The Institute will hold a Financial Reporting Forum – IASB Re-expose *Revenue from Contracts with Customers* on 13 February 2012 for preparers and auditors of financial statements and others interested in financial reporting.

The core principle of this revised proposed standard is the same as that of the 2010 ED: that an entity would recognize revenue from contracts with customers when it transfers promised goods or services to the customer. The amount of revenue recognized would be the amount of consideration promised by the customer in exchange for the transferred goods or services. However, in response to feedback received on the 2010 ED and extensive outreach activities, the IASB and US FASB further refined their original proposals.

#### Key impacts

- Revenue recognition may be accelerated or deferred
- Revenue may be recognized at a point in time or over time
- Contract terms and business practices may need to change
- New estimates and judgements required
- Extensive new disclosure requirements

The forum will outline the main changes to the existing practices and the potential implications of the ED if they are adopted.

To secure seats, please register early by completing the [registration form](#).

### Financial Reporting

#### 2. Institute Comments on Consultation Documents

- (i) IASB ED of *Government Loans* (proposed amendments to IFRS 1)

The Institute made a [submission](#) to the IASB on the ED of *Government Loans* (proposed amendments to IFRS 1 *First-time Adoption of IFRSs*).

The Institute notes that the requirements of paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, including its transitional relief to existing IFRS preparers was introduced as part of the Annual Improvements issued in May 2008, but no corresponding adjustment was made to IFRS 1 at that time. The proposed change highlights the fact that the process in proposing consequential amendments by the IASB may not have working properly at the time of issuance of the Annual Improvements 2008. The institute would like to reiterate that before any new or amended standards are released and adopted, the IASB should assess their impact and implications on all existing standards at the time. This step should ensure that all relevant standards that need revision are also appropriately amended.

The Institute also notes that paragraphs 50 to 53 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provide a general “impracticability” relief for existing IFRS adopters, which would have specifically addressed the issue raised in BC2 of the proposed amendments to IFRS 1, namely the inability to estimate unobservable fair values without using hindsight. Such a general “impracticability” relief is not included in IFRS 1, and instead the issue appears to be addressed by piecemeal exceptions such as are proposed here. Such a piecemeal approach leads to complexity in IFRS 1 as well as leaving other situations of impracticability

unaddressed – for example, it is unclear to the Institute why such relief should only be available in respect of loans at low interest from the government and why it is not, for instance, also available in respect of loans at low interest from related parties.

Therefore, while the Institute is supportive of the IASB's proposal to provide relief to first-time adopters of IFRSs by amending IFRS 1 to permit prospective application of the requirement of IAS 20 to recognize the benefit of a government loan advanced either interest free or at a below-market rate of interest as a government grant, it is believed that the IASB should consider whether, as a matter of principle, the "impracticability" relief guidance in IAS 8 should be included in IFRS 1 as a generally available exception from retrospective application of accounting policies. It is believed that the IASB should explain in the Basis for Conclusions why retrospective application of IAS 20 should remain an option in some circumstances.

(ii) IASB ED of *Investment Entities*

The Institute made a **submission** to the IASB on the ED of *Investment Entities*.

The Institute welcomes the IASB's proposals to amend IFRS 10 *Consolidated Financial Statements* in relation to consolidation requirements for investment entities. The proposals respond to the concerns of constituents who expressed support for a consolidation exception for investment funds in comment letters during the development of IFRS 10.

Overall, the Institute agrees with the IASB's proposal for an exception to the consolidation principle on the basis that for investment entities, the fair value measurement attribute is the most relevant information to users of financial statements because the investments are for capital appreciation, investment income or both, but are not for the purposes of integrating into the operations of the group at large. While it is agreed that criteria should be set to

determine whether this consolidation exemption should be applied to an entity, the Institute is concerned that the proposed wording in paragraph 2 can be applied to many situations which in our view do not reflect the IASB's intention. Hence it is believed that the drafting of this paragraph requires considerable reconsideration to ensure it only captures those entities intended to be captured. In this regard, the Institute recommends that a more principles-based approach is adopted, with an investment entity being defined as a venture capital organization, mutual fund, unit trust or similar entity, including investment-linked insurance fund, whose principal business purpose is to invest in entities for capital appreciation of the investments, investment income (such as dividends or interest), or both. With such definition of an investment entity, criteria are then set out, such as those in paragraph 2 of the ED, to determine whether a reporting entity is an investment entity based upon this principle.

In addition, the Institute has concerns with regards to the "multiple investments" criterion set out in paragraph 2(a) and "multiple investors" criterion set out in paragraph 2(d). The Institute sees no conceptual arguments to distinguish an investment entity that has a single investor or a single investment to the one that has multiple investors in qualifying as an investment entity. These concerns are expressed in more detail in the answer to question 2.

Moreover, the Institute does not agree with the requirement that a parent, which is not an investment entity itself, should consolidate the controlled entities that it holds through subsidiaries that are investment entities. In the view of the Institute, if application of the investment entity exception at the subsidiary level results in fair value information that is more decision-useful than consolidated information then the Institute would expect such fair value information to be relevant in the financial statements of the ultimate parent entity. The Institute understands that

the FASB proposals preserve the accounting treatment in its parent's financial statements and the Institute supports convergence with US GAAP in this area.

## International Meetings

### 3. International Accounting Standards Board

The IASB met on 25-27 January 2012 and discussed the following topics:

- Agenda consultation – comment letter summary
- Effective dates of IFRS 10, 11 and 12
- Financial instruments: Classifications & Measurements
- Financial instruments: Impairment
- IFRS 1 comment letter analysis
- Insurance contracts: education session
- Macro hedge accounting
- Matters to report to the Board from the Interpretations Committee
- Work plan

Click to view the IASB Update on the meetings on [25-27 January](#). The IASB next meets in February 2012.

### 4. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 17-18 January 2012 and discussed the following topics:

- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Levies charged for participation in a specific market (date of recognition of a liability)
- IAS 32 *Financial Instruments: Presentation* – Put options written over non-controlling interests

- IAS 2 *Inventories* – Long-term prepayments for inventory supply contracts
- IFRS Interpretations Committee agenda decisions
- Issues considered for *Annual Improvements*
- IFRS Interpretations Committee work in progress

Click to view the IFRIC Update on the meeting on [17-18 January](#). The IFRS Interpretations Committee next meets in March 2012.

### 5. International Auditing and Assurance Standards Board

The IAASB next meets in March 2012. Click [here](#) for the next meeting's details and previous meeting summary.

### 6. International Ethics Standards Board for Accountants

The IESBA next meets in February 2012. Click [here](#) for the next meeting's details and previous meeting summary.

## Useful Resources

### 7. Publications

The following are publications on various topics:

- (i) Update on IFRSs and HKFRSs:
  - [HKFRS/IFRS update](#) by BDO
  - [IFRS in Focus](#) by Deloitte
  - [In the Headlines](#) by KPMG
- (ii) Offsetting of financial instruments:
  - [Update](#) by KPMG
  - [IFRS/HKFRS News](#) by PwC
  - [IFRS developments](#) by Ernst & Young

- (iii) Challenges of accounting for financial instruments:
  - [IFRS/HKFRS News](#) by PwC
- (iv) eNews by Financial Reporting Council:
  - [eNews](#) by FRC
- (v) Accounting for Eurozone Sovereign Debt:
  - [Alert](#) by Deloitte
- (vi) Mandatory effective date of IFRS 9:
  - [Applying IFRS](#) by Ernst & Young
- (vii) Illustrative financial statements:
  - [Illustrative financial statements](#) by Deloitte with early application
  - [Illustrative financial statements](#) by PwC

### Comment Due Dates

**20 February 2012:** IASB ED of *Revenue from Contracts with Customers*

**28 February 2012:** IASB ED of *Transition Guidance (Proposed Amendments to IFRS 10)*

**29 February 2012:** IFAC's IESBA ED on *Proposed Changes to the Code of Ethics for Professional Accountants to Address Conflicts of Interest*

## Specialist Practices, Business Members and Advocacy

### Professional Accountants in Business

#### 8. Results of Stock Exchange Review of Listed Issuers' Financial Reports

The Stock Exchange has published a report summarizing key observations and findings from its review of 100 periodic financial reports released by listed issuers between October 2009 and April 2011.

Click to view the [press release](#) and [full report](#).

### Corporate Finance

#### 9. SFC Explains Features and Risks Inherent in RQFII Funds

Renminbi Qualified Foreign Institutional Investor ("RQFII") funds are a new class of investment products, which directly invest in renminbi ("RMB") in the Mainland bond and equity markets. An RQFII fund comprises at least 80% RMB debt instruments issued in mainland China and an optional not-more-than 20% of A-shares or other permissible investments in that market. Subscriptions and redemptions of fund units are settled in RMB.

The Securities and Futures Commission ("SFC") has published a list of [frequently asked questions](#) on its InvestEd website to help investors understand the key features and risks specific to the RQFII funds.

#### 10. SFC Enhances Online Portal Functions to Improve Application Efficiency

The SFC has extended the functionality of its [Online Portal](#) to facilitate electronic submission of licence applications and other licensing-related communications. Licensed persons and licence applicants are now able to utilize the internet to submit to the SFC, and manage, all types of licensing applications, notifications, annual returns and payments.

## Taxation

### 11. IRD Reminds Taxpayers to Give Notification of any Change of Address

As the bulk issues of **employers' returns (BIR56A)** and **individual returns (BIR60)** will be sent out on 2 April and 2 May, respectively, the Inland Revenue Department has reminded taxpayers to give notification of any change of address.

### 12. Budget 2012/13

The financial secretary delivered the 2012/13 budget speech on 1 February. The budget contained a number of **tax relief measures** in addition to a waiver of rates on property and an electricity subsidy. For the full budget speech, highlights and related information, click [here](#). For the Institute's reaction, click [here](#). For the Institute's own budget proposals, click [here](#). The Institute hosted a lively budget forum on the evening of budget day, with speakers, Legislative Council members Regina Ip and Paul MP Chan and budget subcommittee convenor, Florence Chan, and tax committee chair, Ayesha Lau, as moderator.

### 13. Double Tax Treaties

A double tax treaty with the **Czech Republic** came into effect on 24 January 2012 and a treaty with **Spain** will come into effect on 16 April 2012.

## Legislation & Other Initiatives

### 14. Final Proposals on Policyholders' Protection Fund

The government has **announced consultation conclusions and final proposals** on the establishment of a Policyholders' Protection Fund ("PPF") on 30 January. See **TechWatch no. 105** (item 25) for the Institute's submission.

In view of the general public and industry support for the establishment of a PPF and most of the key proposals contained in the **consultation document**, the government will

proceed with drafting the enabling legislation for establishing the PPF, which will be in 2013-14, at the earliest.

### 15. Companies Registry Update

- (i) The Companies Registry ("CR") released annual statistics for 2011 on 8 January 2012. Refer to the relevant **press release** and the **statistics section** of the CR website for detail.
- (ii) The CR has uploaded the data specifications, XML data file samples and the e-Form templates of e-Forms D2A, D2B, D4 and R1 for the Third Party Software Interface onto its website, under the "**Third Party Software Interface Specification**" section.

### 16. Revised Anti-Money Laundering Guidelines Issued by the HKMA, SFC and OCI

Following the enactment of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, **the Hong Kong Monetary Authority, the Securities and Futures Commission and the Office of the Commissioner for Insurance** have gazetted revised anti-money laundering ("AML") guidelines, which will take effect on 1 April 2012. These include more extensive guidance on customer due diligence. **The Customs and Excise Department** has also issued AML guidelines for money service operators. On the same subject, the SFC has released the **conclusions of the prior consultation on its new guidelines**. Click **press release** for details.

### 17. Latest AML Notices

Members may wish to note that the following notices in relation to combating money laundering/terrorist financing:

- **Government notice 286**: Updated list of relevant persons and entities specified under the United Nations Sanctions (Libya) Regulation 2011.

- **Government notice 285**: Updated list of relevant persons specified under the United Nations Sanctions (Côte d'Ivoire) (No. 2) Regulation 2011.
- **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 anti-money laundering, see the Institute’s [Legal Bulletin 1](#), “Requirements on anti-money laundering, anti-terrorist financing and related matters”.

## Useful Resources

### 18. Library Resources

**Featured titles** and **new books** of high reference value for members 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.

### 19. Other Publications

The following articles/publications on topical issues may be of interest to members:

(i) HKEx published:

- three guidance letters in relation to:
  - Disclosure in listing documents for initial public offering (“IPO”) cases – the “Summary and Highlights” section ([HKEx-GL27-12](#))
  - Disclosure in listing documents for applicants engaged in the restaurant business ([HKEx-GL28-12](#))
  - Interim Guidance on Pre-IPO Investments ([HKEx-GL29-12](#))

- **Revised guide on pre-vetting requirements and selection of headline categories for announcements**

- **Report** on IPO applications, delisting and suspensions (as at 31 January)

- **2011 market statistics**

- **Status Report** on new product and market development initiatives (as of 16 January)

- January 2012 issue of its quarterly publication – [Exchange](#)

(ii) SFC published:

- January 2012 issue of [InvestEd Intelligence](#) offers some guidance for investors to avoid a common mistake (i.e. signing a document without fully understanding the implication and consequences). It also reminds investors to stay abreast of issuer’s credit worthiness and understand how a credit rating downgrade may affect their investments.

(iii) Articles on corporate governance by Deloitte:

- **Directors' alert: 12 issues for 2012 – When uncertainty reigns**

- **The sustainable board**

- **Risk committee resource guide for boards**

- **Audit committee performance evaluation**

- **Asia Pacific economic outlook – China, India, The Philippines, Singapore, and South Korea**