

TechWatch 137

The latest standards and technical developments

Members' handbook

Handbook update no. 138 - 140

- (i) Update no. 138 contains the issuance of HKFRS 14 *Regulatory Deferral Accounts*. HKFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous generally accepted accounting principles requirements when they adopt HKFRS. However, to enhance comparability with entities that already apply HKFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents HKFRS financial statements is not eligible to apply the standard.
- (ii) Update no. 139 contains consequential amendments to HKFRS, which were previously set out in the appendix to the standards, as they were not yet effective. The Institute has taken this opportunity to incorporate the amendments applicable on 1 January 2013 in the relevant affected HKFRS for greater clarity.
- (iii) Update no. 140 contains revised Statement 1.102 *Corporate Practices (Registration) Rules 2014* and Statement 1.102 (sch.) *Schedule to the CPR Rules "Corporate Practices (Model Articles of Association)" March 2014*.

The new Companies Ordinance took effect on 3 March. As a result, consequential amendments have been made to the CPR Rules and its schedule, the Model Memorandum and Articles of Association, to conform to the new ordinance since corporate practices are limited companies.

In the CPR Rules, chapter and section references to the ordinance have been

updated. References to the Model Memorandum and Articles of Association have also been changed to Articles of Association as the memorandum has been abolished under the new ordinance.

The Model Memorandum and Articles of Association for corporate practices have been revised to become the Model Articles of Association for corporate practices. These contain the mandatory articles required under the new ordinance and adopt the relevant model articles in the Companies (Model Articles) Notices of the new ordinance. The Model Articles of Association are applicable to corporate practices incorporated on or after 3 March.

Financial reporting

Invitations to comment on consultation papers

- (i) *IASB Request for Information Post-Implementation Review: IFRS 3 Business Combinations*
The International Accounting Standards Board is seeking feedback on whether IFRS 3 provides information that is useful to users of financial statements, whether there are areas of the standard that represent implementation challenges and whether unexpected costs have arisen when preparing, auditing or enforcing the requirements of the standard. Comments are requested by 30 April.
- (ii) *Exposure draft of Accounting Bulletin 5*
Guidance for the preparation of a business review under the Hong Kong Companies Ordinance
Under the new Companies Ordinance, companies are required by section 388 to prepare a business review, which complies with Schedule 5 unless exempted.
At the invitation of the Companies

Registry, the Institute proposes to issue Accounting Bulletin 5 to provide guidance on the preparation of a business review under the new ordinance.

The proposed bulletin sets out the key elements for the contents of a business review, including details on particular matters that should be disclosed to the extent necessary to meet the minimum requirements for the business review. It is also accompanied by implementation guidance, which contains application examples.

The application of the guidance in the proposed bulletin may vary considerably depending on whether the company is large or small and whether it is complex or relatively simple. However, in all cases, the directors should ensure that they comply with the minimum requirements of the new ordinance. Comments are requested by 22 April.

Institute comments on IASB exposure draft

The Institute sent a comment letter to the IASB on its exposure draft of *Equity Method in Separate Financial Statements* (Proposed amendments to IAS 27 *Separate Financial Statements*).

The Institute did not object to the proposed amendments to IAS 27 to allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. However, the Institute did not agree with the proposed consequential amendments to IAS 28 *Investments in Associates and Joint Ventures*, as the Institute did not believe that the principles applied to loss of control over a subsidiary in IFRS 10 Consolidated Financial Statements should be applied in separate financial statements. In addition, the Institute noted that the equity method of accounting is the subject of an IASB research project and



recommended that any amendments to IFRS in relation to the application of the equity method be considered as part of this project.

Professional accountants in business

IFAC proposes guidance on supplementary financial measures

The Professional Accountants in Business Committee of International Federation of Accountants has issued proposed International Good Practice Guidance, *Developing and Reporting Supplementary Financial Measures*, for public comment. This guidance seeks to establish a benchmark for the use of supplementary financial measures, in order to improve understanding of an organization's performance among management, investors, and other stakeholders.

The guidance is meant for all organizations that want to use supplementary financial measures, regardless of size or structure, private or public. Many such measures are widely used in both internal and external reporting, for example, earnings before interest, taxes, depreciation

and amortization; underlying profit; and free cash flow.

The deadline for comments to IFAC is 26 May. If you wish to submit views via the Institute, please write to commentletters@hki CPA.org.hk by 25 April.

CIMA and AICPA launch new global accounting principles

The Chartered Institute of Management Accountants and the American Institute of CPAs have proposed a comprehensive framework, "Global Management Accounting Principles: Driving better business through improved performance," to bring consistency to management accounting practices around the world.

The draft principles outline the values and qualities that represent best practice management accounting on a global scale. They include guidance on preparing relevant information, modelling value creation, communicating with impact and establishing the professional values of management accountants.

If you wish to submit views via the Institute, please write to commentletters@hki CPA.org.hk by 25 April.

Corporate finance

SFC proposes to strengthen regulation of alternative liquidity pools

The Securities and Futures Commission has launched a consultation on the future regulation of alternative liquidity pools, which are also known as alternative trading systems and "dark pools," with comments requested by 25 April.

The SFC proposes to enhance and standardize the regulatory obligations imposed on Hong Kong licensed corporations that operate alternative liquidity pools, by including within the Code of Conduct for Persons Licensed by or Registered with the SFC, comprehensive requirements governing their operation. As a result of strengthening the regulation, the SFC will cease its current practice of imposing conditions on the licences of alternative liquidity pool operators on a case-by-case basis.

If you wish to submit views on this consultation via the Institute, please write to commentletters@hki CPA.org.hk by 11 April.

Legislation and other initiatives

Companies Registry issues new external circulars

The Companies Registry has issued the following two external circulars to prepare for the commencement of the new ordinance:

- No. 10/2014: Offence Relating to Contents of Auditor's Report.
- No. 11/2014: Companies (Directors' Report) Regulation (Cap. 622D) Disclosure of Information in Directors' Report - equity-linked agreements and reasons for resignation or refusal to stand for re-election of a director.



Please refer to the full version of TechWatch 137, available as a PDF on the Institute's website: www.hki CPA.org.hk