

TechWatch 166

The latest standards and technical developments

Ethics

Responding to non-compliance with laws and regulations

International Ethics Standards Board for Accountants has issued a new standard, *Responding to Non-compliance with Laws and Regulations*, effective 15 July 2017.

The standard sets out a first-of-its-kind framework to guide professional accountants in deciding how best to act in the public interest, without breaching their duty of confidentiality, when they become aware of non-compliance or suspected non-compliance with laws and regulations – including matters related to fraud, money laundering, and tax payments.

Financial reporting

Invitation to comment on IASB exposure draft

The Institute is seeking comments on the International Accounting Standards Board's ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* (Proposed Amendments to IFRS 3 and IFRS 11) by 30 September.

Institute's comments on IVSC exposure drafts

The Institute commented on exposure drafts on IVS 104 *Bases of Value*, IVS 105 *Valuation Approaches and Methods* and IVS 210 *Intangible Assets* that were issued by the International Valuation Standards Council.

Professional accountants in business

New IFAC research report demonstrates positive association between business performance and use of accountants

A new International Federation of Accountants research report, *The Rela-*

tionship between Accountancy Expertise and Business Performance, shows how advice and expertise from accountants help improve business performance at companies around the world.

The report summarizes the findings by entity size (small- and medium-sized entities and large entities) as important differences exist between each group and in how business performance and accountancy expertise are put into operation. The research also shows the positive impact professional accountants have on aligning organizations' goals and actions. Professional accountants are well-suited to play various roles in organizations, including analysis and communication of information, decision making, managing risks, and creating sustainable value – roles that indirectly impact business performance.

Corporate finance

HKEX publishes results of its latest review of listed issuers' financial reports

On 15 July, Hong Kong Exchanges and Clearing published a report summarizing key findings from its review of 100 periodic financial reports released by listed issuers between March 2015 and April 2016.

The report highlights the following areas where there is room for improvement and special focus is required:

- **Enhancements to management discussion and analysis** – MD&A should be balanced (with coverage of good news as well as bad news) and sufficiently tailored to the issuer's specific circumstances.
- **Disclosures under the Companies Ordinance** – Issuers should pay attention to the recent Listing Rule amendments with reference to the Companies Ordinance (Cap. 622) applicable to all issuers

(whether or not they are incorporated in Hong Kong).

- **Resolution of issues relating to modified auditors' reports** – Issuers whose financial statements have auditors' reports with modified opinions should take proactive steps to resolve the issues with their auditors as soon as practicable.
- **Extended auditor reporting** – Issuers, in particular their audit committee, should note that for audits of financial statements for periods ending on or after 15 December 2016, they should have in-depth conversations with their auditors about key audit matters, going concern issues and other significant events or transactions that occurred during the reporting period.
- **Key Hong Kong Financial Reporting Standards that will soon become effective** – Issuers should note that a number of key accounting standards will soon become effective, such as HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers*, HKFRS 16 *Leases*, and should perform a detailed review of these standards as soon as practicable.
- **Rigorous assessment of impairment of assets** – Issuers should aim to improve the quality of their disclosure of how they carried out their work on the impairment of assets, particularly where the recoverable amount was based on value in use, which required management's estimation of cash flow projections, growth rates and appropriate discount rates.
- **Non-HKFRS financial information** – Issuers that choose to present non-HKFRS financial information to provide additional insight into their performance should ensure that the information is not misleading, would not obscure their financial results



and financial position, and would not provide an incomplete description of their financial results based on accounting standards.

- **Determination of control over investees** – Issuers should ensure that the relevant facts and circumstances are clearly disclosed so that investors and other users of financial statements understand why the issuer has control over an investee, in particular, in cases where the issuer only has de facto control over the investee.

Members, especially those responsible for preparing financial reports of listed issuers, are encouraged to read the report.

Further consultation conclusions on introducing mandatory clearing and expanding mandatory reporting for OTC derivatives market

The Hong Kong Monetary Authority and the Securities and Futures Commission released their conclusions to the proposals made in a joint consultation on introducing mandatory clearing and expanding mandatory reporting for the second stage of the over-the-counter derivatives regulatory regime in February. The conclusions paper set out the revised proposals after taking into account market comments and feedback and sought to further consult on the initial list of financial services providers.

On 15 July, HKMA and SFC published further consultation conclusions which set out the revised proposals on

various technical aspects of the next stage of the regime in light of market feedback and comments. The paper also includes a revised version of the specific data fields to be completed under the expanded reporting regime, and a revised list of entities that will be regarded as financial services providers for the purpose of mandatory clearing.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- The tax agreement between Hong Kong and Russia come into force
- Fraudulent email purportedly issued by Inland Revenue Department
- List of approved research institutes as at 4 August
- List of qualifying debt instruments as at 30 June
- Advance ruling case no. 58, involving an amalgamation under the Companies Ordinance
- Taxpayers jailed for:
 - Falsely claiming expenses for self-education and approved charitable donations
 - Falsely claiming deduction of approved charitable donations

Legislation and other initiatives Anti-money laundering or combating the financing of terrorism notices

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

- Government notice 3914: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance;
- Government notice 4054: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance;
- Government notice 4415: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance;
- United States executive order 13224: The list relating to “Blocking property and prohibiting transactions with persons who commit, threaten to commit or support terrorism.”



Please refer to the full version of TechWatch 166, available as a PDF on the Institute’s website: www.hkicpa.org.hk