

# TechWatch 178

## The latest standards and technical developments

### Professional accountants in business

#### Integrated thinking and reporting helps SMEs drive value

International Federation of Accountants and the International Integrated Reporting Council have recently published *Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting*, which highlights how small- and medium-sized entities and the professional accountants serving them can benefit from integrated thinking and reporting.

Thinking beyond the financial elements of an organization to other key areas of value creation can help develop a better understanding of their business and provide key insights for the future.

Integrated reporting embraces the six capitals established by the IIRC's International Integrated Reporting Framework: financial, human, intellectual, manufactured, natural, and social and relationship. Considering each holistically, organizations can build a clearer understanding of the factors necessary to build value over the short, medium, and long term, including how the business uses and effects its resources.

### Corporate finance

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

Hong Kong Exchanges and Clearing (HKEX) has recently published a report

summarizing key findings from its review of 100 periodic financial reports released by listed issuers between February 2016 and April 2017. The report specially highlights the following areas:

- Providing management commentary that is useful for investors
- Rigorous assessment on impairment of assets
- Disclosure of judgments and assumptions in determining control or significant influence
- Impact of applying key HKFRSs in issue but not yet effective
- Segment reporting
- New auditors' reporting

HKEX considers that for a financial report to be an effective communication tool, the information provided should be relevant, material and entity-specific; and issuers should consider removing irrelevant and immaterial disclosures.

#### HKEX launches enforcement newsletter and more director training webcasts

On 21 July, HKEX released its inaugural enforcement newsletter, which will be published twice a year and will include news and updates on the enforcement work undertaken by HKEX. This first issue covers the first six months of 2017 and includes:

- Enforcement statistics for the first half of 2017;
- Disciplinary actions completed and published during the reporting

period; and

- Compliance highlights from the first half of 2017, i.e. compliance issues observed during the HKEX's investigation of suspected breaches of Listing Rules.

At the same time, HKEX also launched its second director training webcasts. This new series, entitled "Risk Management and Internal Control, ESG Reporting", covers the following seven topics:

- Identify and assess risks
- Control systems
- Annual and ongoing review
- Audit committee and internal audit function
- "Comply or explain" – how to do it properly?
- Managing environmental, social and governance risks – an investor's perspective
- Practical tips

Webcast speakers share the experience and perspectives they acquired from their directorships and explain each of the above topics in 4 to 10 minute videos.

#### SFC identifies irregularities in private funds and discretionary accounts

- The Securities and Futures Commission (SFC) issued a circular on 31 July, expressing concerns about the management of some private funds and discretionary accounts with concentrated, illiquid and interconnected investments, which were found to have irregular



features. It also warns that undue concentration of illiquid or interconnected stocks may have a material adverse effect on the ability to meet investors' redemption requests.

Among the irregularities cited in the circular are:

- Discretionary account holders held sizable concentrated stock positions in their accounts;
- Asset managers acted solely at clients' direction without exercising investment discretion;
- Related-party acquisition or disposal of listed company shares by bought and sold notes; and
- Fund investors or discretionary account holders were substantial shareholders, directors or affiliates of the listed companies invested by the funds or the discretionary accounts.

Asset managers are reminded to report to the SFC any material breach, infringement or non-compliance with the market misconduct provisions of the Securities and Futures Ordinance which they reasonably suspect may have been committed by their clients.

## Taxation

### Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- The publication of consultation

report on measures to counter base erosion and profit shifting by enterprises

- Fraudulent email purportedly issued by the IRD
- List of Qualifying Debt Instruments as at 30 June

## Legislation and other initiatives

### AML notices

Members may wish to note the following notices and publications in relation to anti-money laundering and counter-terrorist financing:

- Government notice 5538: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- Government notice 5773: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- Government notice 5774: An updated list of relevant persons has been specified under the United Nations Sanctions (Democratic People's Republic of Korea) Regulation.
- Specially designated nationals and blocked persons list (SDN List): The individuals and entities designated as Specially Designated Global Terrorists are identified in the SDN List. The SDGT designations include terrorist-related designations under the Executive Order 13224 and other United States executive orders, laws and regulations.



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