

TechWatch 188

The latest standards and technical developments

Hong Kong updates

Implementing HKFRS 17 *Insurance Contracts*

The Institute has published a pocket summary on HKFRS 17 to provide insurers with a simple framework and general references for planning the implementation of the standard.

Summaries of the 20 March, 20 April and 27 April meetings of the Hong Kong Insurance Implementation Support Group are now available.

Invitation to comment

The Institute is seeking comments on the IESBA Consultation Paper *Professional Skepticism – Meeting Public Expectations* by 13 July.

International updates

IFRS Updates

- Report on the spring 2018 International Forum of Accounting Standard Setters meeting
- Summary and podcast of the May meeting of the IASB Transition Resource Group for Insurance Contracts
- Quiz on the revised Conceptual Framework
- April and May IASB Update
- May IFRIC Update

IESBA Update

- Podcast of the IESBA March meeting

Professional accountants in business

A vision for the finance professional and the finance function

Following the IFAC Professional Accountants in Business Committee meeting in March, the committee has recently released a report highlighting

the meeting's key messages focused on the key elements of developing a vision and roadmap for the finance professional and finance function, and provided an update on current initiatives of the committee.

HKEX reviews listed issuers' implementation of ESG reporting guide

On 18 May, Hong Kong Exchanges and Clearing (HKEX) published the findings of its review of listed issuers' Environmental, Social and Governance (ESG) disclosures in a report entitled, *Analysis of Environmental, Social and Governance Practice Disclosure in 2016/2017*. The review involved analyzing disclosures made by 400 randomly selected issuers with financial year-end dates of 31 December 2016, 31 March 2017 and 30 June 2017.

HKEX recommends the inclusion of the following key information in listed issuers' ESG reports:

- The issuer's or the board's commitment as well as the management's approach to ESG and how they relate to the issuer's business.
- The board's evaluation and determination of ESG risks and how it ensures that appropriate and effective ESG risk management and internal control systems are in place.
- The process for stakeholder engagement, which is central to materiality assessment and enables the company and its directors to communicate with their stakeholders.

HKEX reviews listed issuers' financial reports

On 1 June, HKEX published a report summarizing key findings from its review of 100 periodic financial reports released by listed issuers between February 2017 and April 2018.

The report specially highlights the importance of the following:

- Providing investors with a meaningful management commentary
- Judgments and estimates
- Assessing impairment of tangible and intangible assets (including goodwill)
- Accounting for acquisitions
- Impact of applying key Hong Kong Financial Reporting Standards in issue but not yet effective
- New auditors' reporting

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

Small and medium practitioners

IFAC guide to practice management helps SMPs thrive in the global economy

IFAC has recently released an updated (4th edition) *Guide to Practice Management for Small- and Medium-Sized Practices* (the guide) to help SMPs adopt good practices to better serve their clients in a digital, globalized world. The guide helps SMPs improve their management and operational efficiency and supports their sustainability and success.

The guide adds a new module on "Leveraging Technology," which covers how technology developments are fundamentally changing the way organizations operate, and recognizes that SMPs must adapt to service their clients that utilize technology. Relevant topics such as developing a technology strategy, hardware and software options, technology risks, new and emerging technologies, and leveraging technology for practice innovation are covered.



Corporate finance

Consultation Conclusions on Capital Raisings by Listed Issuers

On 4 May, HKEX published its consultation conclusions on Capital Raisings by Listed Issuers to restrict abusive practices relating to capital raisings by listed issuers and protect the interests of minority shareholders. The Institute made a submission to the proposals.

The changes to the Listing Rules include the rules on:

- Highly dilutive capital raisings
- Rights issues and open offers
- Placing of warrants or convertible securities under general mandate

There are also other rule amendments to enhance disclosure of the use of proceeds from equity fundraisings, and to impose an additional requirement for subdivisions and bonus issues of shares to ensure an orderly market.

The Listing Rule amendments will become effective on 3 July.

Consultation conclusions on delisting and other rule amendments

On 25 May, HKEX published its consultation conclusions on Delisting and Other Rule Amendments to establish a framework to facilitate timely delisting of issuers that no longer meet the continuing listing criteria and provide certainty to the market on the delisting process. The Institute made a submission to the proposals.

Changes to the Listing Rules include:
Main board Listing Rules

- Add a separate delisting criterion to allow HKEX to delist an issuer after a trading suspension of 18 continuous months.
- Allow HKEX to (i) publish a delisting notice stating its right to delist an issuer if the issuer fails to

resume trading within the period specified in the notice, or (ii) delist the issuer immediately in appropriate circumstances.

- Remove Practice Note 17, which sets out a three stage delisting procedure for issuers without sufficient
- Operations or assets.

GEM Listing Rules

- Align the delisting process with that of the Main Board except for allowing HKEX to delist a GEM issuer after a trading suspension of 12 continuous months.

The new delisting process and Listing Rule amendments will become effective on 1 August. Interested parties can also read the guidance letter on long suspension and delisting (HKEX-GL95-18).

SFC Regulatory Bulletin: Listed Corporations

On 23 May, the Securities and Futures Commission (SFC) published the second edition of its Regulatory Bulletin: Listed Corporations to provide an update on how the SFC exercises its power under the Securities and Futures (Stock Market Listing) Rules (SMLR) to fulfill its statutory objective of protecting investors.

The newsletter highlights some of the SFC's actions to tackle market misbehaviour in the nine months ended 31 March 2018. Case studies are also included to illustrate the SFC's early intervention in serious corporate cases as well as the close relationship between the use of its regulatory tools under the SMLR and its enforcement actions against licensed firms and listed companies.

SFC consultation conclusions

New OFC Rules and OFC Code

On 18 May, the SFC released

consultation conclusions on the proposed Securities and Futures (Open-ended Fund Companies) Rules and Code on Open-ended Fund Companies, which set out detailed legal and regulatory requirements for the new open-ended fund company (OFC) structure. This will enable investment funds to be established in corporate form in Hong Kong, in addition to the current unit trust form.

The SFC will implement the proposals set out in the consultation paper with certain modifications and clarifications. These include streamlining the approval requirements for private OFCs and setting out a one-stop arrangement for the establishment, ongoing corporate filings and termination of OFCs. The OFC regime is targeted to come into effect on 30 July.

Prescribing professional investors

On 18 May, the SFC also released consultation conclusions on proposed amendments to the Securities and Futures (Professional Investor) Rules to standardize the rules for prescribing professional investors. The amended rules are expected to come into effect on 13 July.

The amendments allow portfolios held in joint accounts with non-associates and in investment corporations wholly-owned by an individual to count towards meeting the threshold to qualify as a professional investor.

The categories of professional investors will be expanded to include corporations which have investment holding as their principal business and are wholly-owned by one or more professional investors, as well as corporations which wholly own another corporation which is a qualified professional investor.

In addition, alternative forms of evidence will be allowed to demonstrate qualification as a professional investor.



Taxation

Annual meeting with the IRD

The annual meeting between representatives of the Institute's Taxation Faculty Executive Committee and the IRD took place on 18 May 2018. At the meeting, the IRD confirmed the due dates for lodging profits tax returns for the year of assessment 2017-18. These are highlighted for members' attention:

Accounting date	Extended due date	Further extended due date (if opted for e-filing)
"N" Code	3 May 2018 (no extension)	17 May 2018
"D" Code	15 August 2018	29 August 2018
"M" Code	15 November 2018	29 November 2019
"M" Code (current year loss cases)	31 January 2019	31 January 2019 (same as paper returns)

Institute's recent tax submissions

The Institute's Taxation Faculty has commented on Inland Revenue (Amendment) (No. 2) Bill 2018, which expands of the scope of specified intellectual property rights eligible for tax deductions on capital expenditure, and proposals to remove ring-fencing features from the tax regimes for funds.

Anti-money laundering notices

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

- Government notice (extraordinary) 26: An updated list of terrorists and terrorist associates has been specified under the United Nations Sanctions (Democratic People's Republic of Korea) Regulation.
- Government notice (extraordinary) 28: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- High-risk and non-cooperative jurisdictions: In May, the Financial Action Task Force (FATF) issued one document: Caribbean Financial Action Task Force (CTATF) Public Statement and Notice of exiting the Follow-up process May 2018, the

CFATF Plenary agreed to remove Haiti from its special monitoring process given the forthcoming 4th Round Mutual Evaluation of Haiti. Saint Vincent and the Grenadines made significant progress in addressing the deficiencies identified in the 3rd round Mutual Evaluation and have successfully exited the follow-up process.

- Specially designated nationals and blocked persons list, published by the U.S. Treasury's Office of Foreign Assets Control. More details on the Resource Centre of the Treasury.



Please refer to the full version of TechWatch 188, available as a PDF on the Institute's website: www.hkicpa.org.hk