



# TechWatch

News at a glance

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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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## Spotlight

### 1. Goods and Services Tax Consultation

Following the release of the Government's consultation paper on a proposed goods and services tax ("GST") "***Broadening the Tax Base, Ensuring our Future Prosperity – What's the Best Option for Hong Kong?***" in July 2006, as reported in **TechWatch No. 46**, the Institute has established a GST Working Group as a subcommittee of the Taxation Committee to study the consultation document, canvass members' views on it and coordinate the Institute's response to the document.

The GST Working Group has set up a **GST Consultation website** focusing on the GST issue. The website became operational on 30 September 2006. Members can access information on the background to the GST discussion and also forward their views and comments to the Working Group via the site. More information on key issues raised in the discussion will progressively be posted on the website over the coming few weeks in order to encourage informed debate and help members to consider the issues surrounding GST.

The Working Group will also be issuing a series of emails to address specific issues relating to GST, to alert members to new additions to the website and to encourage member's feedback. The **first email** was issued at the beginning of October 2006. Please check your email for GST news.

### 2. Handbook Update 32

**Update 32** encloses a new Hong Kong (IFRIC) Interpretation 10 *Interim Financial Reporting and Impairment*. Further details are set out in the "Financial Reporting" section below.

### 3. Annual Auditing Update Conference – Saturday, 21 October 2006

Are you aware of the new Auditing Standards, Draft Discussion Paper on Special Purpose Reports and the new Standards on Investment Circular Reporting Engagement? This is a reminder to attend the **Annual Auditing Update**, which will provide you with an overview of:

- Fraud Consideration (HKSA 240)
- Improving Audit Documentation (HKSA 230)
- New Audit Reports Standards (HKSAs 700 and 701)
- HKICPA Discussion Paper Exposure Draft "Request for Special Purpose Reports"
- Pro Forma Financial Information in Investment Circulars (HKSIR 300 and AG 7)
- Comfort Letters and Due Diligence Meetings on Financial and Non-financial Information (HKSIR 400)

## Financial Reporting

### 4. Institute Issues HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Institute has issued HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment* with effect for annual periods beginning on or after 1 November 2006.

HK(IFRIC)-Int 10 is converged with the equivalent IFRIC interpretation. It addresses the apparent conflict between the requirements of HKAS 34 *Interim Financial Reporting* and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. HK(IFRIC)-Int 10 states that any such impairment losses recognised in an interim financial statement must not be reversed in subsequent interim or annual financial statements.

## 5. Institute Invites Comment on Two IFRIC Draft Interpretations

### (a) Draft Interpretation D19

The Institute has issued an **Invitation to Comment** on IFRIC Draft Interpretation D19 – IAS 19 *The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements* with comments requested by **9 October 2006**.

The draft interpretation clarifies how to determine the limit on the asset that an employer's balance sheet may contain in respect of its pension plan as well as how the pensions asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

### (b) Draft Interpretation D20

The Institute has issued an **Invitation to Comment** on IFRIC Draft Interpretation D20 *Customer Loyalty Programmes* with comments requested by **9 October 2006**.

The draft interpretation addresses accounting by entities that grant their customers 'points', 'air miles' or other award credits when the customers buy goods or services. Specifically, it addresses how such entities should recognise and measure their obligations to provide free or discounted goods or services if and when the customers redeem the award credits.

The draft interpretation proposes that entities should allocate some of the proceeds of the first sale to the award credits and defer recognition of this amount of revenue until they have fulfilled their obligations to supply the free or discounted goods or services.

## 6. Institute Comments on IASB ED of Proposed Amendments to IAS 23

The IASB exposure draft ("ED") of Proposed Amendments to IAS 23 *Borrowing Costs* proposes to require an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a

qualifying asset as part of the cost of that asset. The option of immediately recognising those borrowing costs as an expense would be removed as a result.

The Institute's **submission** to the IASB, in general, supports the proposed change as the change will improve financial reporting by removing an option, resulting in information that is more comparable between entities.

## 7. FRSC Meeting Summary – 12 July 2006

This **FRSC meeting summary** covers:

- Proposed revised Preface to HKFRSs
- Comparison list between HKFRSs and IFRSs
- ED of Proposed Amendments to IAS 1 *Presentation of Financial Statements*
- Report from the SME Financial Reporting Framework Sub-Committee

## Audit & Assurance

## 8. AASC Meeting Summary – 20 July 2006

This **AASC meeting summary** covers:

- IAASB Proposed Guide for National Setters that adopt International Standards
- Proposed HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" and HKSA 701 "Modifications to The Independent Auditor's Report"
- Draft Submission on IAASB ED of Proposed ISA 600 (Revised and Redrafted) on the Audit of Group Financial Statements
- Comments received on the application of PN 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results"
- Accountants' Report Project – Progress Report

## Ethics

### 9. Section 441 of the Code of Ethics for Professional Accountants – Change of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong

Outgoing auditors of listed issuers are reminded that the Institute issued in May 2005 a Professional Ethics Statement 1.207A – *Change of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong*, now known as section 441 of the [Code of Ethics for Professional Accountants](#).

Section 441 establishes a framework to enhance communication by auditors with a listed issuer where there is a change of auditors. The framework requires the outgoing auditors to prepare a letter to the audit committee and the board of directors setting out the circumstances leading to their resignation or termination.

Some key features in the section are:

- The circumstances to be disclosed in the Letter of Resignation or Termination are all occurrences that, in the opinion of the outgoing auditors, affect the relationship between the listed issuer and the outgoing auditors.
- Occurrences that affect the relationship between the listed issuer and the outgoing auditors include, but are not limited to, “disagreements” and/or “unresolved issues” and these are further explained in the section.
- The outgoing auditors should note that disclosing the circumstances leading to their resignation or termination in the Letter of Resignation or Termination is the appropriate method of discharging their responsibilities during a change in professional appointment without having to be concerned with the professional duty of confidentiality owed to the listed issuer.
- The incoming auditors should request a copy of the Letter of Resignation or

Termination and any correspondence referred to in the letter directly from the listed issuer for consideration, in addition to requesting professional clearance from the outgoing auditors, before accepting the appointment.

### 10. Ethics Committee Meeting Summary – 3 August 2006

This [meeting summary](#) covers:

- International Ethics Standards Board for Accountants Meeting (13 and 14 June 2006)
- Section 250 “Marketing Professional Services”
- Withdrawal of Professional Ethics Statements and Guidance
- Independence of listing applicants

## Corporate Finance

### 11. Implementation Progress of the New Sponsors Regulatory Regime

The Securities and Futures Commission (“SFC”) [informed](#) the market of the implementation progress of the new sponsors regulatory regime on 5 September 2006.

On 10 April 2006, the SFC released the [Consultation Conclusions](#) to the *Consultation Paper on the Regulation of Sponsors and Compliance Advisers*, which introduced the Guidelines for Sponsors and Compliance Advisers (“Sponsor Guidelines”), outlining the specific eligibility and ongoing requirements for corporate finance advisory firms wishing to act as sponsors and compliance advisers (see [TechWatch No. 37](#) for the Institute’s submission on the consultation paper).

The Sponsor Guidelines, which have been incorporated as part of the [Fit and Proper Guidelines](#) issued by the SFC, will become effective on 1 January 2007 (“Effective Date”). The SFC has recently published on its website a set of [frequently asked questions](#) to clarify and elaborate certain issues in relation to the Sponsor Guidelines.

The SFC has posted on its website the submission forms for existing intermediaries holding, or new corporations seeking, Type 6 Regulated Activity ("RA 6") licences that intend to act as sponsors and/or compliance advisers after the Effective Date. Intermediaries should submit the relevant forms as soon as practicable for assessment by the SFC.

On 5 September 2006, the SFC also issued two circulars to existing intermediaries holding RA 6 licences to remind them of the forthcoming implementation of the Sponsor Guidelines.

The **Circular to intermediaries licensed or registered for Type 6 regulated activity – Sponsor regime** contains information regarding the implementation of the Sponsor Guidelines and what intermediaries need to do in view of the new regime. The SFC also requests intermediaries currently holding RA 6 licences to indicate whether they intend to act as sponsors and/or compliance advisers on or after the Effective Date. Existing intermediaries holding RA 6 licences that do not intend to act as sponsors or compliance advisers should indicate their intentions to the SFC by completing and returning the reply slip attached to the circular on or before 6 October 2006.

The circular on **Securities and Futures (Financial Resources) (Amendment) Rules 2006 for Sponsors** relates to the new minimum paid-up share capital requirement (HK\$10 million) for licensed corporations acting as sponsors under the Securities and Futures (Financial Resources) (Amendment) Rules 2006, which will come into effect on 1 August 2007. In the circular, the SFC sets out the key items affecting corporations licensed for Type 6 regulated activity, as a result of the changes in the Financial Resources Rules.

## 12. Consultation Conclusions on Possible Reforms to the Prospectus Regime

On 22 September 2006, the SFC **announced** the release of the **Consultation Conclusions** on the reforms to the prospectus regime. This initiative is designed to modernise the regime governing the public offering of shares and debentures in the Companies Ordinance (Cap.

32), in order to encourage capital raising and the issuance of securities in Hong Kong, while ensuring satisfactory standards of investor protection. Members may refer to **TechWatch No. 40** for the Institute's submission in response to the original consultation document, which invited views on the reform initiatives relating to the prospectus regime.

Of the 21 reform initiatives proposed, 12 will be pursued in principle and 3 have been revised in light of public comments. A summary of the key responses received by the SFC on each of the initiatives, the SFC's response to them, and the way forward, are all set out in the Consultation Conclusions.

The SFC has indicated that, further to the publication of the Consultation Conclusions, it will hold discussions with relevant stakeholders in order to refine details of the specific initiatives to be taken forward. The aim is then to publish one or more draft bill consultation paper(s) setting out the proposed legislative amendments to the relevant provisions of the Companies Ordinance and the Securities and Futures Ordinance (Cap.571) and to invite public comment on the draft statutory provisions.

## International Meetings

### 13. International Accounting Standards Board

The IASB met in London on 18 to 22 September 2006 and discussed the following topics:

- Insurance
- Business Combination II
- Accounting standards for small and medium-sized entities
- IAS 37 redeliberations
- Conceptual Framework
- Consolidations (including special purpose entities)
- Revenue recognition
- Short-term convergence: segment reporting



- Financial instruments
- Financial statement presentation
- Update on IFRIC activities
- IAS 24 *Related Party Disclosures*
- Fair value measurement
- IFRS 1 amendments
- Technical plan

Click [here](#) to see the September 2006 IASB Update of the Board Decisions on IFRS. The IASB next meets on 16 – 20 October 2006.

#### 14. International Financial Reporting Interpretations Committee

The IFRIC met in London on 7 and 8 September 2006 and discussed the following topics:

- Service concession arrangements
- IFRS 2 *Share-based Payment* – Group and treasury share transactions
- IAS 18 *Revenue* – Real estate sales
- IAS 18 *Revenue* – Revenue recognition in respect of initial fees received by a fund manager
- IAS 38 *Intangible Assets* – Treatment of catalogues and other advertising costs
- Tentative agenda decisions

Click [here](#) to see the September 2006 IFRIC Update. The IFRIC next meets on 2 to 3 November 2006.

#### 15. International Auditing and Assurance Standards Board

The meeting summary for the July 2006 IAASB meeting held in Brussels has now been posted on the IAASB website. Click [here](#) for further details.

The IAASB met in Montreal from 18 to 22 September 2006, as reported in [TechWatch No. 47](#), and will next meet in New York from 25 to 27 October 2006.

#### 16. International Ethics Standards Board for Accountants

The IESBA will be meeting in Sydney from 16 to 18 October 2006 to discuss the proposed revisions to Section 290 “Independence – Assurance Engagements” of the Code of Ethics for Professional Accountants.

Click [here](#) for further details.

#### Comment Due Dates

**6 October 2006: IASB Exposure Draft** of Proposed Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*

**6 October 2006: IASB Discussion Paper** on *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*

**9 October 2006: IFRIC Draft Interpretation D19** – IAS 19 *The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*

**9 October 2006: IFRIC Draft Interpretation D20** *Customer Loyalty Programmes*

**31 October 2006: HKICPA Exposure Draft** of Discussion Paper “*Requests for Special Purpose Reports*”

Please send comments to  
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