



# TechWatch

News at a glance



**Issue 100 • February 2011**

In this 100<sup>th</sup> issue of TechWatch, we should like to wish all our readers a very happy, healthy and successful Year of the Rabbit.

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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## Financial Reporting, Auditing and Ethics

New!

### 1. The Revised Code of Ethics Seminar

The Institute issued the Revised Code of Ethics in June 2010, which is effective from 1 January 2011. The Revised Code of Ethics maintains the principles-based approach and covers guidance on accepting payment in an agent-principal relationship under the Prevention of Bribery Ordinance.

The Institute will hold the Revised Code of Ethics Seminar in conjunction with the ICAC on 15 March 2011. A Senior Community Relations Officer of the ICAC Regional Office (Hong Kong East) will also talk on Professional Ethics – The Best Defence Against Corruption.

To secure seats, please register early by completing the [registration form](#).

### 2. Financial Reporting and Auditing Alert – Issue 13

The Institute issued [Financial Reporting and Auditing Alert – Issue 13](#) to report the findings on practice reviews of practices with listed clients, including:

- Independence – fees and long association of senior personnel with audit clients
- Acceptance and continuance
- Accounting treatment of and audit work on complex transactions
- Communication with those charged with governance
- Information technology controls and reliance on IT generated reports
- Group audits

## Members' Handbook

### 3. Handbook Update No. 104

[Update No. 104](#) contains amendments to HKFRS for Private Entities and the Small and Medium-sized Entity Financial Reporting Standard to reflect the clarification in Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*. Since the amendments are clarification of existing standards, they shall have immediate effect.

## Financial Reporting

### 4. Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The Institute issued amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* in December 2010. The current HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40 *Investment Property*.

The amendment introduces a rebuttable presumption that if a deferred tax liability or asset arises from investment property that is measured using the fair value model in HKAS 40, the carrying amount of the investment property will be recovered through sale.

This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The rebuttable presumption contained in the above also applies when a deferred tax liability or a deferred tax asset arises from measuring investment property in a business combination if the entity will use the fair value model when

subsequently measuring that investment property.

As a result of the amendments, HK(SIC)-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into HKAS 12 the remaining guidance previously contained in HK(SIC)-21, which is accordingly withdrawn.

The amendments are effective for annual periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

For detailed guidance, members may refer to:

- **Staff summary** by the Institute
- **Update** by BDO
- **IFRS in Focus** by Deloitte
- **IFRS outlook** by Ernst & Young
- **Update** by KPMG
- **IFRS/HKFRS news** by PwC

## 5. Accounting Bulletin 4

Members are reminded that the Institute has issued **Accounting Bulletin 4 Guidance on the determination of realised profits and losses in the context of distributions under the Hong Kong Companies Ordinance** in May 2010 to provide guidance on the determination of distributable profits under the Hong Kong Companies Ordinance.

For ease of reference, a **Staff Summary** has been prepared to provide an overview of the guidance set out in Accounting Bulletin 4.

## 6. FRSC Minutes

This **FRSC minutes** on 7 December 2010 covers:

- Report on IFRS Advisory Council Meeting on 3-4 November 2010
- HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*
- IASB ED of Proposed Amendments to IAS 12 – *Deferred Tax: Recovery of Underlying Assets*
- IFRS Foundation Paper for Public Consultation – Status of Trustee's Strategy Review
- IVSC Roundtable in Hong Kong on 12 November 2010
- IASB ED of Leases

## 7. Institute Comments on IVSC DP Valuation Uncertainty

The Institute made a **submission** to International Valuation Standards Council ("IVSC") DP on *Valuation Uncertainty* and the Institute supports the IVSC's efforts to improve the transparency and disclosures on valuation uncertainty. It is believed that the use of quantitative and qualitative information is useful for users of the valuation. Quantitatively, it would be appropriate to include the valuation results as a range supported by assumptions used in the report. Unless a single point estimate is required, the supporting calculations should provide a range. Qualitatively, the Institute generally agrees with the conclusion sets out in the DP that for disclosure of material uncertainty to be useful it will normally require a commentary on the nature and causes of uncertainty.

It is considered that an uncertainty statement should be provided in all cases stating whether there is material or abnormal uncertainty that has been recognized by valuers in the valuation report. The Institute understands that an assessment as to whether there is material or abnormal uncertainty is a matter of professional judgment and the judgment on the materiality of uncertainty will depend upon the purpose and

the context of the valuation. The Institute agrees with the current approach adopted by the IVSC not to provide bright-line rules on materiality. However, it is believed that some sort of implementation guidance should be developed by the IVSC on the extent of the information that should be included in the uncertainty statement to make it useful, such as the nature of uncertainty, the level that is normal or abnormal for the market and the asset involved, the necessary assumptions that have been made in the valuation and how this is reflected in the reported valuation.

In June 2010, the IASB issued an exposure draft on "Measurement Uncertainty Analysis Disclosure for Fair Value Measurements" which sets out a proposal to require disclosure of a "measurement uncertainty analysis" of the inputs used to measure fair value in Level 3 in the financial statements. The Institute has previously expressed the concerns that the proposed disclosure requirements as currently written in the IASB exposure draft will be difficult for financial statement preparers to operationalize. It is considered that the proposal only provides information on possible different values but does not provide information about how the correlation of relevant unobservable inputs has influenced the disclosed fair value. The Institute recommends that the IASB works closely with the IVSC to consider qualitative disclosure alternatives.

## Audit & Assurance

### 8. Invitation to Comment on Consultation Documents

- (i) IFAC's IAASB Consultation Paper on *Proposed Strategy and Work Program for 2012-2014*

The Institute has issued an [Invitation to Comment](#) on IFAC's IAASB Consultation Paper on Proposed Strategy and Work Program for 2012-2014, with comments requested by **14 March 2011**.

The IAASB Consultation Paper was developed with input from the Questionnaire and other consultation and outreach

activities. It highlights issues facing the accounting profession and suggests priority activities for the IAASB during 2012–2014.

The IAASB is proposing to remain focused on three strategic areas:

- Developing and revising standards and pronouncements;
- Monitoring and facilitating adoption of those standards; and
- Responding to implementation concerns and improving the consistency of the standards' practical application.

- (ii) IAASB ED on Proposed ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*

The Institute has issued an [Invitation to Comment](#) on IAASB ED on Proposed International Standard on Assurance Engagements ("ISAE") 3410 *Assurance Engagements on Greenhouse Gas Statements*, with comments requested by **20 May 2011**.

The proposed ISAE addresses the practitioner's responsibilities in identifying, assessing, and responding to risks of material misstatement, and contains illustrative assurance reports on greenhouse gas statements. The proposed standard covers both "reasonable assurance" and "limited assurance" engagements. The proposed requirements and guidance also recognize that most engagements will be undertaken by a multidisciplinary team, so they address the need for the assurance practitioner to integrate experts – in engineering or environmental science, for example – into various stages of the engagement.

- (iii) IAASB ED on Proposed ISRE 2400 (Revised) *Engagements to Review Historical Financial Statements*

The Institute has issued an [Invitation to Comment](#) on IAASB ED on Proposed

International Standard on Review Engagements ("ISRE") 2400 (Revised) *Engagements to Review Historical Financial Statements*, with comments requested by **21 April 2011**.

The proposed ISRE will help practitioners around the world who perform review engagements converge towards use of a globally accepted benchmark, and facilitate development of practice in jurisdictions that currently do not have national standards in this area.

The proposed ISRE also seeks to strengthen extant ISRE 2400 in a number of ways. The proposed standard:

- Requires the practitioner to obtain an understanding of the entity and its environment sufficient to identify areas in the financial statements where material misstatements are likely to arise, so procedures can be designed to address those areas. This will make the review engagement more effective and more efficient in design.
- Clarifies that the basis of a review is obtaining evidence for the practitioner's conclusion on the financial statements, expressed in the required form, through performing procedures (primarily inquiry and analytical review) based on the practitioner's understanding of the entity and its environment and of the applicable financial reporting framework. This is in contrast to obtaining "moderate assurance" as set out in extant ISRE 2400, which may lack meaning for users.
- Sets out more clearly the circumstances where additional procedures are needed (that is, when the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the financial statements may be materially misstated), to promote greater consistency of practice.

- Seeks to enhance the practitioner's reporting for the review, so that the report provided for the engagement will adequately explain to users the work performed and the limited assurance obtained by the practitioner.

(iv) IAASB DP on The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications

The Institute has issued an [Invitation to Comment](#) on IAASB DP on The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications, with comments requested by **3 May 2011**.

This DP highlights recent trends in the range, volume, and complexity of financial statement disclosures, and explores issues and practical challenges in preparing, auditing, and using them. It begins with a discussion of recent trends in financial reporting and their impact on financial statement disclosures. It then discusses how the International Standards on Auditing currently deal with disclosures. The remainder of the DP focuses on audit issues that the IAASB has identified regarding disclosures required by a financial reporting framework.

The DP addresses critical issues such as challenges in preparing disclosures, the nature and extent of evidence for different types of disclosures, and the application of the concept of materiality to disclosures. Views from all stakeholders are sought, and the discussion paper asks specific questions of preparers; investors, lenders, and other creditors; regulators; and auditors.

## International Meetings

### 9. International Accounting Standards Board

The IASB met on 17-21 January 2011, and discussed the following topics:

- Annual Improvements

- Assessment of the proposed Annual Improvements qualifying criteria
- Consolidation and joint arrangements
- Financial instruments: impairment
- Insurance contracts
- IFRS Interpretations Committee update
- Leases
- Post-employment benefits
- Revenue recognition

Click to view the IASB Update on the meeting on **17-21 January**. The IASB next meets in February 2011.

## 10. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 6-7 January 2011, and discussed the following topics:

- Accounting for stripping costs in the production phase of a surface mine
- Contingent pricing of property, plant and equipment and intangible assets
- Put options written over non-controlling interests
- IFRS Interpretations Committee tentative agenda decisions
- Issues considered for *Annual Improvements*
- IFRS Interpretations Committee work in progress

Click to view the IFRIC Update on the meeting on **6-7 January**. The IFRS Interpretations Committee next meets in March 2011.

## 11. International Auditing and Assurance Standards Board

The IAASB next meets in March 2011. Click [here](#) for the next meeting's details and previous meeting summary.

## 12. International Ethics Standards Board for Accountants

The IESBA next meets in February 2011. Click [here](#) for the next meeting's details and previous meeting summary.

### Useful Resources

## 13. Publications

The following are publications on various topics:

- (i) Hong Kong Interpretation 5:
  - **Illustrative disclosures** by the Institute
- (ii) Year-end statements presentation:
  - **IFRS in Focus** by Deloitte
- (iii) Illustrative financial statements:
  - **Illustrative financial statements** by KPMG (HKFRSs)
- (iv) HKFRS/IFRS 9 for financial liabilities:
  - **Update** by BDO
  - **HKFRS News** by PwC
  - **First Impressions** by KPMG

### Comment Due Dates

**16 February 2011:** IASB ED of *Hedge Accounting*

**28 February 2011:** IAASB ED on Proposed International Standard on Related Services ("ISRS") 4410 (Revised) *Compilation Engagements*

**1 March 2011:** IFAC ED on IFAC Policy Position Paper

**14 March 2011:** IFAC's IAASB Consultation Paper on *Proposed Strategy and Work Program for 2012-2014*

**21 April 2011:** IAASB ED on Proposed ISRE 2400 (Revised) *Engagements to Review Historical Financial Statements*

**3 May 2011:** IAASB DP on The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications

**20 May 2011:** IAASB ED on Proposed ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*

## Specialist Practices, Business Members and Advocacy

### Corporate Finance

#### 14. Extension of Trading Hours of Securities and Derivatives Markets

On 24 January 2011, HKEx **announced** the SFC's approval for extension of trading hours of the securities and derivatives markets in two phases.

Starting on 7 March 2011 (phase one), the trading sessions of HKEx's securities market will run from 9:30 am to 12:00 noon, and then from 1:30 pm until 4:00 pm. Trading in HKEx's derivatives markets and the auction sessions of the securities and derivatives markets will also start earlier. Beginning on 5 March 2012 (phase two), the afternoon trading session will be from 1:00 pm until 4:00 pm.

As a result of the extension of trading hours, the publication windows for listed issuers to make Listing Rules-related announcements through the HKEx news website will be revised accordingly. From 7 March 2011, the morning window will be between 6:00 am and 8:30 am on normal business days, while the window during the lunch break will be between 12:00 noon and 1:00 pm during phase one, and between 12:00 noon and 12:30 pm after phase two begins. The window in the evening will continue to be between 4:15 pm and 11:00 pm.

#### 15. HKEx Consultation Conclusions

On 21 January 2011, HKEx published conclusions on the following consultations:

- (i) Changes to Requirements for Qualified Property Acquisitions ("QPA") and Formation of Joint Ventures ("JVs")

Given the overwhelming support of the proposals set out in the consultation paper, HKEx has decided to implement the proposals, with minor modifications based on suggestions from respondents. Accordingly, the Listing Rules have been revised to:

- extend the QPA exemption to cover mainland government land acquisitions by property developers through public auctions or tenders;
- remove some of the qualification criteria/conditions for the QPA exemption;
- require the disclosure of information relating to the formation of JVs for QPA to be made in an announcement and circular published at the time of the transaction;
- exempt QPA from the property valuation requirement; and
- relax the requirements for the formation of JVs by all listed issuers.

See [TechWatch no. 98](#) for the Institute's submission and the [consultation conclusions](#) for details. Amendments to [Main Board Listing Rules](#) and [GEM Listing Rules](#) took effect on 1 February 2011.

(ii) Change to Minimum Number of Shareholders for the Market Capitalization/Revenue Test

Given the unanimous support from the market, HKEx has decided to reduce the minimum shareholder requirement for the Market Capitalization/Revenue Test from 1,000 to 300 shareholders. See [TechWatch no. 98](#) for the Institute's submission and the [consultation conclusions](#) for details.

[Amendments to Main Board Listing Rules](#) took effect on 1 February 2011.

## Corporate Governance

### 16. OECD-Asian Roundtable on Corporate Governance

The 2010 OECD-Asian Roundtable on Corporate Governance was held in December 2010 in Shanghai. It was co-hosted by the China Securities Regulatory Commission and the Shanghai and Shenzhen Stock Exchanges. Click [here](#) to view more details.

## Taxation

### 17. Institute Submits Proposals on the Government Budget

The Institute's [submission](#) to the financial secretary, entitled "Developing a sustainable community, economy and environment", focuses on those three main areas. Measures for the community are sought to address issues relating to the ageing population and low birth rate, the high cost of housing and the needs of the disabled. The Institute's proposed economic measures look to support small- and medium-sized enterprises and boost tax incentives for Hong Kong's strategic development in areas such as financial services, intellectual property use and development, and regional operations. The submission also encourages further expansion of the network of double taxation agreements. Proposed measures relating to the environment recognize that concerns about Hong Kong's air quality have become a significant consideration in Hong Kong's ability to attract and retain highly-qualified local and overseas personnel.

Click for the [press release](#) and [summary of key proposals](#).

### 18. More Legco Questions on Section 39E

Two further legislative council questions relating to section 39E of the Inland Revenue Ordinance, concerning plant and machinery used in the Mainland, were raised on [12](#) and [19](#) January.



## Legislation & Other Initiatives

### 19. Gazettal of Companies Bill

The **Companies Bill** ("CB") was gazetted on 14 January 2011, and was introduced into the Legislative Council for its first reading on 26 January 2011.

The CB seeks to update the provisions relating to the operation of companies in the Companies Ordinance ("CO"). It comprises 21 parts, with some 900 clauses and 10 schedules. It aims to achieve four main objectives, namely, enhancing corporate governance, ensuring better regulation, facilitating business and modernizing the law. A **summary** sets out some notable measures in the CB to achieve these objectives. The bill does not cover the winding up provisions of the CO, which will be reviewed in the next phase of the CO Rewrite project.

### 20. Commencement of Parts 2 and 5 of Companies (Amendment) Ordinance 2010

The Companies Registry ("CR") has issued **Companies Registry External Circular No. 1/2011** announcing that, with effect from 21 February 2011, parts 2 and 5 of **Companies (Amendment) Ordinance 2010** will come into operation to facilitate electronic company incorporation. A one-stop company and business registration service will also be implemented upon the commencement of **Business Registration (Amendment) Ordinance 2010** on the same day.

The following specified forms and notices, effective from 21 February 2011, have been uploaded under the "**Specified Forms**" section of the CR's website.

- **NC1** – Incorporation Form (Company limited by shares) (Revised)
- **NC1G** – Incorporation Form (Company not limited by shares) (Revised)
- **NC3** – Consent to Act as First Director (New)

- **IRBR1** – Notice to Registration Office (New)
- **IRBR2** – Notice to Registration Office (New)

In addition, the **Company Names Guidelines** have been revised.

### 21. Companies Registry Launches E-Registry

The CR has recently launched the **e-Registry**. Details are shown in the **letter**. Briefing sessions were held on 12 and 17 January 2011 during marketing conferences to introduce the services of the e-Registry.

A new section on "The e-Registry" has been added under the "About Us" > "Development Programme" > "**Integrated Companies Registry Information System (ICRIS)**" section of the CR's website. The information related to the conferences has been uploaded to the "**Marketing Conference**" section under the "About Us" > "Development Programme" section.

### 22. Combating Money Laundering/Terrorist Financing

Members may wish to note the following notices in relation to combating money laundering/terrorist financing:

- **Government notice 8155**: Updated list of terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **US executive order 13224**: Changes to the list relating to "Blocking property and prohibiting transactions with persons who commit, threaten to commit or support terrorism".

For more background information on the current law in Hong Kong relating to anti-money laundering, see the Institute's **Legal Bulletin 1**, "Requirements on anti-money laundering, anti-terrorist financing and related matters".

## Useful Resources

### 23. Library Resources

**Featured titles** and **new books** of high reference value for members are now available. In addition, members can **login** to the **e-Library** and access e-journals and e-books on a wide range of business subjects.

### 24. Other Publications

The following articles/publications on topical issues may be of interest to members:

(i) In January 2011, HKEx published:

- **Letter** to listed issuers entitled "New guidelines on publication of overseas regulatory announcements"
- **Letter** to sponsor firms and **revised checklists and forms** for new applicant (CF100M, CF069M, CF046M, CF047M, CF100G, CF045G, CF042G and CF044G) in relation to Mixed Media Offers (i.e. issuers of equity securities and debentures can issue paper application forms in public offers without being accompanied by paper listing documents, provided that they comply with certain conditions)
- one **listing decision** on Italy as an acceptable jurisdiction for an issuer's incorporation (LD1-2011)
- **status report** on new product and market development initiatives (status as of 15 January 2011)
- **report** on initial public offering applications, delisting and suspensions (as at 31 January 2011)
- revised Frequently Asked Questions **Series 1** and **Series 8**
- 39th Edition of HKEx quarterly publication - **Exchange**
- **2010 Market Statistics**

### ➤ **Implementation of HKEx Strategic Plan 2010-2012**

(ii) In January 2011, SFC published:

- **Dual Filing Update** (Issue no. 4), a newsletter that highlights key dual filing issues identified by the SFC
- **Enforcement Reporter** (Issue no. 67), a bi-monthly newsletter that highlights the SFC's enforcement work and key enforcement outcomes and issues
- Jan 2011 issue of **InvestEd Intelligence**, a bi-monthly e-newsletter with a diverse range of educational information about investing to enhance investor protection

(iii) CR released **annual company statistics for 2010**

(iv) Articles on corporate governance by Deloitte:

- **Audit committee brief – issues for audit committees to consider at year-end**
- **The inside story: the changing role of internal audit in dealing with financial fraud**
- **The top 11 for directors in 2011**
- **Major embezzlements: how can they get so big?**