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Your Ref.: (39) in TELA/CR 000/4 Pt. 7

10 May 2006

Broadcasting Authority
39th Floor, Revenue Tower
5 Gloucester Road
Wanchai
Hong Kong

(Attn: Mr. Edmond Chui, Secretary for Secretary Broadcasting Authority)

Dear Mr. Chui,

Industry Consultation on Draft Accounting Manual for Television Programme Service Licensees

The Hong Kong Institute of CPAs welcomes the opportunity to provide you with our comments on the Draft Accounting Manual for Television Programme Service Licensees. Our detailed comments on the Draft Accounting Manual are set out in the appendix for your consideration.

We understand the practices stated in the Draft Accounting Manual are designed to minimise differences between those practices required by the Broadcasting Authority (BA) to meet its objective and those practices that the reporting parties adopt to meet their statutory requirements, including external financial reporting. Pursuant to this objective, we would recommend that the section on "general accounting policies and principles" should have cross-references to our Standards in general but specifying only the differences required for each individual item, if needed. Currently, that section specifies certain accounting treatments that, we note, are, in some cases, inconsistent with the relevant Standards that are also identified as being mandatory. This would create confusion to the readers. However, in the case where the BA wishes to mandate certain treatments that are not consistent with the treatments allowed under our Standards, the BA should note that this might have an impact on the opinion to be given by auditors on the regulatory reports.

If you have any questions on our comments, please do not hesitate to contact me at 2287 7247 or patricia@hkicpa.org.hk or Ms. Elsa Ho, Assistant Director, Standard Setting at 2287 7094 or elsa@hkicpa.org.hk.

Yours sincerely,

Patricia McBride
Director, Standard Setting
Hong Kong Institute of Certified Public Accountants

PM/EH/al

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APPENDIX

Hong Kong Institute of CPAs

Detailed Comments on the Draft Accounting Manual for Television Programme Service Licensees

General

1. We understand that the Office of the Telecommunications Authority (OFTA) has also an accounting manual in place. We have some concerns about having two manuals dealing with similar issues in place as this may cause confusion and/or duplication of effort. We therefore request the BA giving due consideration as to whether the purpose of issuing the Draft Accounting Manual could be served by BA and OFTA working together to issue a single manual jointly.

Specific

2. We have concerns about the guidance on allocating common equipment between the different activities and are doubtful as to whether such allocation is workable and/or meaningful. In this respect, we consider that it would be difficult for a lay person to judge whether the guidance in section 2.4 on "Affiliate transactions" and section 4 on "Accounting segregation" is sufficient or practicable. However, this area is also an area where Hong Kong Financial Reporting Standards (HKFRSs) may not be sufficient to achieve the purposes of the manual as set out in sections 1.3 and 4.2. Accordingly, we consider it important that guidance on this area of the Draft Manual should be enhanced to make it as unambiguous and practicable as possible.

3. With respect to section 2 "General accounting policies and principles", we consider the guidance is confusing as it, on occasion, specifies specific accounting treatments which are or may be inconsistent with the Hong Kong Accounting Standard (HKAS) or HKFRS which is identified as also being mandatory. For example,

    (i) section 2.2.2 requires the use of historical cost accounting and section 2.3.1 permits the use of both historicial cost and valuation;

    (ii) section 2.3.2 states that finance and operating leases are to be accounted for in accordance with HKAS 17 *Leases*. However, this paragraph also states that assets leased under finance leases are to be capitalised at the fair market value at the date of acquisition. This would be contrary to HKAS 17.20 (which requires financial leases to be recognised at the commencement of the lease term at the fair value or, if lower, the present value of the minimum lease payments) if the present value of the minimum lease payments is lower than the fair value of the asset;

(iii) section 2.3.7 requires HKAS 21 *The Effects of Changes in Foreign Exchange Rates* to be followed, but then sets out rules for recognising foreign currency transactions which are contrary to HKAS 21;

(iv) section 2.3.6 is a rather strange mixture of extracts from the detail that is to be found in HKAS 19 *Employee Benefits;* and

(v) section 2.3.10 extends the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to "contracts to buy or sell non-financial items".

We would therefore recommend that, if it is not the BA's intention to mandate treatments which are contrary to HKFRSs, the BA should delete such detail from the Draft Manual but only include a cross reference to HKFRSs in general. If it is the BA's intention to mandate such non-GAAP treatments, then this intention should be made clear whenever such a non-GAAP treatment is described in the Draft Manual as it could affect the wording of any audit report as compared to the example at the end of Appendix E (which asserts that the information has been prepared in accordance with HK GAAP).

4. With respect of section 2, we also have concerns about the following:

- section 2.2.1: Prudence is no longer a fundamental accounting concept.
- section 2.2.2: Historical cost accounting is not the principle adopted necessarily in HKAS 39. Therefore in this respect 2.2.2 and 2.3.10 seem to contradict each other.
- secton 2.3.1: The Draft Manual requires "fixed assets" to be accounted for under HKAS 16 *Property, Plant and Equipment*. However, the scope of HKAS 16 only extends to items of property (other than investment property), plant and equipment. We consider that, if intangible assets are a common type of fixed asset held by such entities, the existence of HKAS 38 *Intangible Assets* should be acknowledged. This comment also applies to section 2.3.5 concerning depreciation and amortisation.

5. It appears from the draft audit report at the end of Appendix E that the only reference to "true and fair" that the auditors are required to give is where the auditors confirm that in their opinion the reporting entity's statutory financial statements give a true and fair view. The opinions, so far as the regulatory reports prepared under this accounting manual are concerned, are by contrast expressed in terms of whether the regulatory reports "have been properly prepared". We therefore request that the BA make this distinction clearer in the wording in section 5.3.3 as from reading that section, the reader gets the impression that the auditors are being asked to express an opinion as to whether the regulatory reports themselves give a true and fair view. We are of the view that it would not be appropriate for an auditor to express a "true and fair" opinion on the regulatory reports due to the nature

of the basis of their preparation (see e.g. the comment at the start of section 4.3) and the limited extent of disclosures therein, compared to the full requirements of HKFRSs. In addition, we would recommend that Report 5.1 of Appendix E, opinion bullet point 1 be extended to included.… “have been properly prepared**, in all material respects,** in accordance with the Accounting Manual and the Reporting Party’s Procedures Manual,…”

Sundry

6. All references to the International Accounting Standards Committee (IASC) in the Draft Accounting Manual should be changed to the International Accounting Standards Board (IASB) as the IASC was reconstituted as the IASB back in 2001.