Professional and Technical News at a glance

TechWatch

Issue No. 23 April/May 2004

This is the 23rd Issue of TechWatch, a publication designed to alert HKSA members to topics and issues that impact on accountants and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Stephen Chan, Technical Director (Ethics & Assurance) & Head of Standards & Technical Department Coordination by email: commentletters@hksa.org.hk .

TechWatch is available at the HKSA's website: http://www.hksa.org.hk/professionaltechnical/techwatch/ .

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New Initiatives of the HKSA

1. **Technical Update Evenings – Overwhelming Support With Re-Run Sessions Announced**

Technical Update Evening ("TUE") was launched by the HKSA Standards & Technical Department in March 2004 to provide a further channel of communication between members and the HKSA Technical Directors.

Due to overwhelming support, there will be re-run sessions for TUEs 402, 403 and 404 as follows:

- TUE 402A "SME Financial Reporting Framework and Standards", 25 May 2004
- TUE 403A "New Audit Risk SASs", 27 September 2004
- TUE 404A "Tax Issues Relating to Source of Employment under DIPN10", 29 June 2004

Limited seats are still available. Please register early to secure your seat.

For details of the latest programme of TUE, go to:
http://www.hksa.org.hk/professionaltechnical/TUE/index.php .

2. **HKSA Members' Handbook Re-launch – Special Concession Price Announced**

HKSA will re-launch its Members' Handbook with effect from 1 June 2004. As at that date the new Handbook will supersede the current A5-sized hard copy publication and the electronic version (e-Handbook) available on the HKSA's website. Members and other Handbook users will have more options on how to obtain, update and access their copies of the Handbook and a simpler subscription framework will apply. Details of the HKSA Members' Handbook Re-launch Project are available at:
http://www.hksa.org.hk/professionaltechnical/handbook/index.php .

HKSA announced on 30 April 2004 a special concession price for members and registered students for subscription to both the Hard Copy Foundation Set and the Hard Copy Update Subscription as follows:

		Original Price	Special Concession Price
(a)	Hard Copy Foundation Set	HK$1,700 each	HK$1,700 each for both (a) and (b)
(b)	Hard Copy Update Subscription to 30 June 2005	HK$1,000 each	

The above offer will last until 31 December 2004. For details of the Special Concession Price, go to:
http://www.hksa.org.hk/professionaltechnical/handbook/members_handbook-2.pdf .

Financial Reporting

3. **IASB Issues IFRS 3 *Business Combinations* And Revised Standards IAS 36 *Impairment of Assets* And IAS 38 *Intangible Assets***

The International Accounting Standards Board (IASB) has issued International Financial Reporting Standard (IFRS) 3 *Business Combinations*, and revised Standards IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*.

The IASB announced in July 2001 that it would undertake a project on Business Combinations as part of its initial agenda. The IASB's objective was to improve the quality of, and seek international convergence on, the accounting for business combinations, goodwill and intangible assets. IFRS 3, together with the revised versions of IAS 36 and IAS 38, has been issued as part of the first phase of the project.

The main features of the new and revised Standards are:

- All business combinations within the scope of IFRS 3 must be accounted for using the purchase method. The pooling of interests method (merger accounting) is prohibited.

- Costs expected to be incurred to restructure an acquired entity's (or the acquirer's) activities must be treated as post-combination expenses, unless the acquired entity has a pre-existing liability for restructuring its activities.

- Intangible items acquired in a business combination must be recognised as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

- Identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed, must be measured initially at fair value.

- Amortisation of goodwill and intangible assets with indefinite useful lives is prohibited. Instead they must be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment.

One of the objectives of the subsequent phases of the project will be to eliminate remaining differences between international and national standards on business combinations. Matters to be addressed include:

- Issues related to applying the purchase method of accounting. This is being run as a joint project with the US Financial Accounting Standards Board (FASB).

- The accounting for formations of joint ventures and business combinations involving entities under common control.

- Possible applications for 'fresh start' accounting.

Under the HKSA's due process for setting accounting standards, the HKSA Financial Accounting Standards Committee (FASC) had earlier issued an Invitation to Comment on the IASB's exposure draft with comments requested by 15 March 2003. The FASC plans to consider at its May 2004 meeting a proposed HKFRS 3 based on IFRS 3.

4. IASB Issues IFRS 4 *Insurance Contracts*

The IASB has issued International Financial Reporting Standard (IFRS) 4 *Insurance Contracts*. The publication of this IFRS provides, for the first time, guidance on accounting for insurance contracts, and marks the first step in the IASB's project to achieve the convergence of widely varying insurance industry accounting practices around the world.

In developing IFRS 4, the IASB balanced the urgent need for an international standard on accounting for insurance contracts with the recognition that developing a global consensus on a rigorous and comprehensive approach would require extensive consultation beyond the time frame available. In particular, consultation on a completely new international approach could not be completed in time to meet the starting date of 2005 set by the European Union and other jurisdictions. In that light, IFRS 4 completes only the first phase of the IASB's insurance project. It is aimed at introducing improved disclosures for insurance contracts, and modest improvements to recognition and measurement practices, without requiring extensive changes that might need to be reversed when the IASB completes the second phase of this project.

In the second phase, the IASB will address broader conceptual and practical issues related to insurance accounting. These will be the subject of IASB deliberations and consultations with interested parties that will resume in the second quarter of 2004. The IASB's next step will be the establishment of an international working party of about fifteen members. The working party will be composed of experts active in the insurance industry and the accounting profession, representatives of the appropriate regulatory and supervisory authorities, and investment analysts. Although the completion of any long-term solution for insurance contracts may take several years to complete, the IASB is willing to revise IFRS 4 in the short term in the light of any immediate solutions arising from the working party's discussions. Further details of the insurance working party will be announced shortly.

Under the HKSA's due process for setting accounting standards, the FASC had earlier issued an Invitation to Comment on the IASB's exposure draft with comments requested by 10 October 2003. The FASC plans to consider at its May 2004 meeting a proposed HKFRS 4 based on IFRS 4.

5. IASB Issues IFRS 5 *Non-current Assets Held For Sale And Discontinued Operations*

The IASB has issued International Financial Reporting Standard (IFRS) 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Convergence of accounting standards around the world is one of the IASB's prime objectives. To that end, the IASB and the FASB initiated a joint short-term project aimed at reducing the differences between IFRSs and US GAAP.

IFRS 5 is the first standard to arise from the IASB's joint project with the FASB. The project focuses on differences that are not the subject of major current or planned projects by either board and are thought capable of quick resolution. The first phase of the project involves each board reviewing the other's recent pronouncements, with an expectation that recent work on an accounting problem will have produced a good solution. IFRS 5 results from the IASB's review of the FASB standard SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, which was issued in 2001.

IFRS 5 requires assets that are expected to be sold and meet specific criteria to be measured at the lower of carrying amount and fair value less costs to sell. Such assets should not be depreciated and should be presented separately in the balance sheet. It also requires operations that form a major line of business or area of geographical operations to be classified as discontinued when the assets in the operations are classified as held for sale. These requirements relating to assets held for sale and the timing of the classification of discontinued operations are substantially the same as the equivalent requirements in US GAAP. The type of operation that can be classified as discontinued is narrower than under US GAAP but the IASB intends to continue to work with the FASB in this area to achieve convergence soon.

Under the HKSA's due process for setting accounting standards, the FASC had earlier issued an Invitation to Comment on the IASB's exposure draft with comments requested by 30 September 2003. The FASC plans to consider at its May 2004 meeting a proposed HKFRS 5 based on IFRS 5.

6. IASB Finalises Macro Hedging Amendments To IAS 39

The IASB has issued an Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk. The amendments simplify the implementation of IAS 39 by enabling fair value hedge accounting to be used more readily for a portfolio hedge of interest rate risk (sometimes referred to as a macro hedge) than under previous versions of IAS 39.

The publication of this amendment is a direct response to concerns expressed by the banking community about the potential difficulty of implementing the requirements of IAS 39. Many constituents had sought fair value hedge accounting treatment for portfolio hedging strategies, which was not previously permitted under IAS 39. In the light of these concerns, the IASB launched intensive discussions with representatives of the banking industry to determine whether a way could be found within the existing principles of IAS 39 to allow fair value hedge accounting treatment to be applied to a macro hedge.

The publication of this amendment means that macro hedging will be part of the IASB's set of standards to be adopted in 2005. The IASB notes that discussions will continue on another aspect of IAS 39, namely an additional hedging methodology and the balance sheet presentation of certain hedges – issues of particular concern to some banking institutions. Furthermore, the IASB has subsequently published a proposed limited amendment to restrict the existing fair value option in response to concerns raised by banking supervisory authorities (see article 8 below).

With the publication of the macro-hedging amendment, the IASB announced its intention to set up an international working party to examine the fundamentals of IAS 39 with a view to replacing the standard in due course. (A similar working party will be established on the IASB's long-term insurance project.) The financial instruments working party will assist in improving, simplifying and ultimately replacing IAS 39 and examine broader questions regarding the application and extent of fair-value accounting – a topic on which the IASB has not reached any conclusion. Although any major revision of IAS 39 may take several years to complete, the IASB is willing to revise IAS 39 and IFRS 4 *Insurance Contracts* in the short term in the light of any immediate solutions arising from the working parties' discussions.

Under the HKSA's due process for setting accounting standards, the FASC had earlier issued an Invitation to Comment on the IASB's exposure draft with comments requested by 31 October 2003. The FASC plans to consider at its May 2004 meeting the adoption of similar changes.

7. HKSA Announces Release Of New Accounting Standards

A recent HKSA press announcement on the release of new accounting standards, dated 7 April 2004, has been posted on the HKSA's website at:
http://www.hksa.org.hk/corporate_relations/media/pressrelease/070404e.pdf .

8. FASC Invites Comments On IASB Exposure Draft Of A Proposed Limited Amendment To IAS 39 *Financial Instruments: Recognition and Measurement* On The Fair Value Option

The IASB has published an Exposure Draft of a proposed limited amendment to IAS 39 *Financial Instruments: Recognition and Measurement* on The Fair Value Option.

The IASB Exposure Draft proposes to limit the financial assets and financial liabilities to which the fair value option may be applied, while preserving the key benefits of the option. In particular, the proposals are to:

(a) limit the types of financial assets and financial liabilities to which the option may be applied to five specified categories, and

(b) require that the option may be applied only to financial assets and financial liabilities whose fair value is verifiable. The proposal that fair value must be verifiable would apply only when the fair value option is used, and not for other items measured at fair value (those classified as held for trading, derivatives and available-for-sale assets) or for the purposes of disclosing fair value.

Under the HKSA's due process for setting accounting standards, the HKSA has issued an Invitation to Comment on the Exposure Draft with comments requested by 7 July 2004. The Invitation to Comment has been posted on the HKSA's website at:
http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/ .

Following from the IASB's final approved changes, the FASC intends to recommend the adoption of similar changes so that the HKFRSs maintain conformity with the IASB's Standards. The FASC does not intend to issue a specific Hong Kong exposure draft on the matters covered in the IASB Exposure Draft.

9. FASC Meeting Summary – 10 March 2004

The FASC met on 10 March 2004 and discussed the following items:

- ✓ Companies Ordinance financial reporting requirement – holding company's balance sheet presented with consolidated accounts
- ✓ Proposed second consultation paper on a financial reporting framework and financial reporting standard for small and medium-sized entities – referral from the HKSA GAAP for Small Businesses Working Group
- ✓ Accounting standards revised as a consequence of the IASB's Improvements Project
- ✓ Financial Instruments – Proposed HKAS 32 & HKAS 39 based on the recently revised IAS 32 & IAS 39
- ✓ Convergence with IASB Standards
- ✓ Proposed HKFRS 2 *Share-based Payment* (converged with IFRS 2)
- ✓ 2004 standard setting timetable
- ✓ Proposed replacement/withdrawal of SSAP 27

Copies of FASC meeting summaries are posted on the HKSA's website at:
http://www.hksa.org.hk/professionaltechnical/accounting/fascupdate .

Audit & Assurance

10. HKSA Invites Comments On Exposure Draft Of Proposed Standards And Guidance For HKSA Members In Performing Listing Engagements

In an effort to enhance the quality of financial information relating to listing documents for Initial Public Offerings ("IPOs") and other capital market transactions ("investment circulars") to maintain Hong Kong's status as an international financial and capital market, the HKSA has proposed new requirements for HKSA members. The proposed new requirements will govern the preparation of accountants' reports and other reports on financial information, and also the preparation of financial information by listing applicants/listed companies, for inclusion in investment circulars.

All these proposed new requirements are now under public consultation in the form of an Exposure Draft, which is available on the HKSA's website at:
http://www.hksa.org.hk/professionaltechnical/assurance/artf/index.php. The Exposure Draft includes an Explanatory Memorandum and the following 7 proposed professional standards and guidance notes:

- HKSIR 100 "Investment circulars and reporting accountants"
- HKSIR 200 "Accountants' report on historical financial information in investment circulars"
- HKSIR 300 "Accountants' report on pro forma financial information in investment circulars"
- HKSIR 400 "Comfort letters and other assistance to sponsors"

- PN 2000 “Other letters issued in relation to investment circulars”
- AG 2.211 “Preparation of historical financial information for inclusion in investment circulars”
- AG 2.212 “Preparation of pro forma financial information for inclusion in investment circulars”.

The proposed HKSIRs (Hong Kong Standards on Investment Circular Reporting Engagements) is a new series of standards governing the work of reporting accountants. The proposed PN (Practice Note) 2000 is to assist reporting accountants where they are requested by the directors of listing applicants to issue letter on cash flow forecasts or projections and letter on schedule of indebtedness. The two proposed AGs (Accounting Guidelines) are issued to assist the directors of listing applicants in preparing financial information for inclusion in investment circulars.

The HKSA will be most interested to know the views of its members and all other interested parties on the Exposure Draft. Comments on the Exposure Draft are requested by **14 August 2004**.

11. Amendment To PN 840 “The Audit Of Solicitors’ Accounts Under The Solicitors’ Accounts Rules And The Accountant’s Report Rules” – Reporting On Failure To Account For Interest On Client Account

The HKSA revised paragraph 19(b) of PN 840 to clarify the reporting requirement of a contravention of the Law Society’s Practice Direction J “Interest on Clients’ Account”, after consultation with The Law Society of Hong Kong.

In response to the HKSA’s request, the Law Society advised that it would not envisage qualification of Accountant’s Reports merely on a failure to account for very small amounts of interest, particularly if those amounts of interest are less than a realistic administration fee. The Law Society is of the view that the purpose of an Accountant’s Report is to verify compliance with the Solicitors’ Accounts Rules and to draw attention to any breaches of the Solicitors’ Accounts Rules or Practice Directions that adversely affect any client account or trust money to a material extent. An accountant would therefore exercise common sense and proportionality in deciding whether a failure to account for interest is adverse to the client account. Previously, all failures to account for interest on the client account were required to be reported in the Accountant’s Report.

It should be noted that the Law Society suspended Practice Direction J with effect from 1 January 2004 until further notice.

12. HKSA Comments On IAASB EDs Of Proposed Revisions To Auditor’s Report And Audit Of Group Financial Statements

The HKSA made two separate submissions on the following two IAASB Exposure Drafts:

(1) Proposed revised ISA 700 “The Independent Auditor’s Report On a Complete Set of General Purpose Financial Statements” and proposed conforming changes to ISAs

(2) Proposed revised ISA 600 “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements” and Proposed new IAPS “The Audit of Group Financial Statements”

Submission on proposed revised ISA 700
http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_EDISA700.pdf

In the HKSA’s submission, we are supportive of the proposed revision to ISA 700, which is very timely as we are seeing increased public attention regarding the need to develop high quality international auditing standards. We concur with the IAASB’s view that consistent and generally accepted guidance on the form and content of the auditor's report is an important step in gaining both stakeholders' and auditors' understanding and acceptance of audits conducted in accordance with the ISAs.

Submission on proposed revised ISA 600 and new IAPS
http://www.hksa.org.hk/professionaltechnical/assurance/submission/docs/IAASB_EDISA600.pdf

In the HKSA's submission, we do not agree with the idea of divided responsibility between the primary and secondary auditors for the audit opinion on the group financial statements and do not support the proposed changes to ISA 600 that elevate the option of dividing responsibility with other auditors as an equally valid alternative approach for various reasons as stated.

13. AASC Meeting Summary – 24 March 2004

A meeting summary of the AASC meeting held on 24 March 2004 has been posted on the HKSA's website at: http://www.hksa.org.hk/professionaltechnical/assurance/aasc/index.php .

Corporate Governance

14. OECD Issues Revised Corporate Governance Principles

Following a consultation process involving representatives of Organisation for Economic Cooperation and Development (OECD) and non-OECD governments, international standard-setting bodies, businesses and professional bodies, trade unions and civil society organisations, reported in TechWatch Issue No. 21 (February 2004), the OECD announced the release of the revised Principles of Corporate Governance ("Revised Principles") on 22 April 2004. The Revised Principles, approved by the 30 OECD member countries, aim to rebuild and maintain public trust in companies and stock markets by adding new recommendations for good practice in corporate behaviour. The Revised Principles can be accessed at the OECD's website at: http://www.oecd.org/dataoecd/32/18/31557724.pdf .

The Revised Principles respond to a number of issues that have undermined the confidence of investors in company management in recent years. They call on governments to ensure genuinely effective regulatory frameworks and on companies themselves to be truly accountable. They advocate an increased awareness among institutional investors and an effective role for shareholders in executive compensation. They also urge strengthened transparency and disclosure to counter conflicts of interest.

Other issues addressed by the Revised Principles include:

Ensuring the basis for an effective corporate governance framework

- A new first principle has been added which outlines some key considerations that should underpin the corporate governance framework.

Institutional investors

- Institutional investors should disclose their corporate governance policies, how they decide on the use of their voting rights and how they manage conflicts of interest that may compromise their voting.

- Restrictions on consultations between shareholders about their voting intentions should be eased to reduce the cost of informed ownership.

Shareholder rights

- The rights of investors must be strengthened. Shareholders should be able to remove board members and participate effectively in the nomination and election processes.

- Shareholders should be able to make their views known about executive and board remuneration policy and any equity component should be subject to their approval.

Conflicts of interest and auditor responsibility

- Rating agencies and analysts should avoid conflicts of interest that could compromise their advice.

- The duties of the auditor must be strengthened and include accountability to shareholders and a duty to the company to exercise due professional care when conducting an audit.

- Auditors should be wholly independent and not be compromised by other relations with the company.

Stakeholder rights and whistle-blower protection

- The Revised Principles state that the corporate governance framework should recognise the rights of stakeholders, whether established by law or through mutual agreements.

- A new principle advocates protection for whistle-blowers, including institutions through which their complaints or allegations can be addressed, and provides for confidential access to a board member.

Board responsibilities

- The duties and responsibilities of the board have been clarified as fiduciary in nature, which is particularly important where company groups are concerned (because a board member's loyalty relates to the company and all its shareholders, not to the controlling company).

- The principle covering board independence and objectivity has been extended to avoid conflicts of interest and to cover situations characterised by block and controlling shareholders, as well as the board's responsibility for the oversight of internal control systems covering financial reporting.

Legislation & Government Initiatives

15. The Government Responds To HKSA's Submission On Companies (Amendment) Bill 2003

As reported in TechWatch Issue No. 18 (November 2003), the Companies (Amendment) Bill was introduced to the Legislative Council ("LegCo") to make various amendments to the Companies Ordinance (Cap.32) ("the Ordinance"), relating to prospectuses, group accounts, procedures in respect of "oversea companies" (referred to in the Bill as "non-Hong Kong companies") and shareholders' remedies. A copy of the Bill may be accessed at the LegCo's website at:
http://www.legco.gov.hk/yr02-03/english/bills/brief/b59_brf.pdf .
The HKSA's submission on the Bill, dated 27 October 2003, may be accessed at the HKSA's website at:
http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company_amend_bill_2003.pdf .

The Government has invited views on its response to the HKSA's comments on Schedule 3 of the Bill (dealing with non-Hong Kong companies and incorporation procedures (see paragraphs 2 to 7 of the HKSA's submission)). The Government's response may be accessed at the HKSA's website at:
http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/submission_responses.pdf .

In the October 2003 submission, the HKSA had proposed retaining a grace period for the appointment of a replacement authorised representative ("AR") of a non-Hong Kong company where an AR is terminated or quits (akin to the existing s333A(2), which is repealed under the Bill), otherwise such a company could find itself in breach of the continuing obligation to keep the details of an AR registered at all times. Although the Government's initial view was that s335(1) of the Ordinance (which requires, inter alia, the particulars of any alteration made in the AR, to be delivered to the Registrar of Companies for registration within 21 days after the date of the alteration) would deal with this concern, following a further submission from the HKSA on 3 May 2004, the Government has agreed that some additional Committee Stage Amendments ("CSAs") may need to be made to the Bill to ensure that no problems arise.

Although the Government has argued against the need for changes to take on board all of the points raised by the HKSA, having considered the Government's response, the relevant committees, namely the Insolvency Practitioners Committee and the Expert Panel on Legal Matters, have decided not to push for further changes to the Bill.

The Government has also invited views from the HKSA on draft CSAs to the provisions relating to injunction, in Schedule 4 of the Bill (dealing with shareholders' remedies). In the May 2004 submission, the HKSA has noted that the CSAs appear to be fairly minor and non-controversial and, indeed, make some improvements to the relevant provisions of Schedule 4 of the Bill.

The HKSA's submission dated 3 May 2004 may be accessed at the HKSA's website at:
http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company_bill_030504.pdf .

16. Consultation Paper On Statutory Derivative Action In The Companies (Amendment) Bill 2003

The Companies (Amendment) Bill 2003 also provides a statutory derivative action whereby a shareholder of a company may commence an action on behalf of the company in respect of a wrong done to the company (under the proposed sections 168BA – 168BI). As reported in TechWatch Issue No. 18, the HKSA has previously commented on this part of the Bill and its comments are contained in paragraphs 12 to 14 of the 27 October 2003 submission (see article 15 for the link to this submission).

The Government has now proposed a number of CSAs to the Bill to address the comments made by the Bills Committee and deputations. The HKSA has been requested to comment on the CSAs, the issues raised by the Bills Committee and the input from the Government, as reflected in the Consultation Paper on Statutory Derivative Action in the Companies (Amendment) Bill 2003 ("the Consultation Paper"), a copy of which may be accessed at the HKSA's website at:
http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/consultation_paper.pdf .

Proposals in the Consultation Paper include the following:

- introduction of a leave requirement for a shareholder before he can bring proceedings on behalf of the company;

- in granting leave for a shareholder to bring proceedings on behalf of the company, the court has to be satisfied that, for example, the "good faith", "best interests" and "serving pre-action notice" conditions in the proposed section 168BB(3) have been met;

- with the introduction of the leave requirement, the power of the court, under the proposed section 168BD, to strike-out proceedings brought by members on certain grounds (in particular, the action does not meet the conditions referred to in the preceding point) will be abolished; and

- unlike the law in other jurisdictions which either expressly or implicitly abolishes the common law derivative action ("CDA"), the proposed section 168BB(4) allows the co-existence of the CDA and the statutory derivative action ("SDA"). According to the Consultation Paper, this has been done because Hong Kong is unique in the sense that there are a large number of companies incorporated outside Hong Kong but controlled by Hong Kong residents. In addition, views have been requested on whether it is necessary to include provisions in the Bill to deal with the co-existence of the CDA and SDA taken by the same shareholder.

The Consultation Paper is currently being considered by the HKSA Expert Panel on Legal Matters. Any significant developments on this subject will be reported in future issue of TechWatch.

17. <u>Fees For The New Service Of Online Company Search To Be Introduced Later This Year</u>

The Government has announced that the Companies Ordinance (Amendment of Eighth Schedule) Order 2004 has been made by the Secretary for Financial Services and the Treasury to revise the existing fee structure to cater for searching company records kept by the Companies Registry ("the Registry") under its new Integrated Companies Registry Information System ("ICRIS"). A copy of the Government's press release issued on 6 May 2004 may be accessed via the Registry's website at:
http://www.info.gov.hk/cr/new/index.htm .

Under ICRIS, company documents kept by the Registry will be stored in digitised form and company searches will be conducted on a "per document" basis as opposed to the existing "per microfiche" basis. Therefore, the search fee items in Part V of the Eighth Schedule to the Companies Ordinance need to be amended. The other fee items in Part V of the Schedule will remain unchanged and be put in a new Part VI of the Schedule.

Phase I of the ICRIS, which allows customers to conduct online searches on the documents kept by the Registry around-the-clock, is expected to come into service in the third quarter of 2004. Subject to completion of the full negative vetting process in the Legislative Council, the Order will be brought into effect on a date to be announced later, so as to tie in with the date when the ICRIS comes into operation. The Registrar of Companies will prescribe that date by means of a commencement notice, once the operation date has been confirmed.

Corporate Restructuring & Insolvency

18. <u>Results Of Official Receiver's Office Tenders Announced</u>

The results of the tenders conducted by the Official Receiver's Office (ORO) for:

(a) taking up of appointment to complete a preliminary examination in bankruptcy cases; and

(b) taking up of appointment as provisional liquidator under section 194(1A) of the Companies Ordinance,

have been posted on the ORO's website at: http://www.info.gov.hk/oro/tender/index.htm .

Taxation

19. <u>The Revenue Bill 2004 Introduced Into LegCo</u>

The Revenue Bill 2004, which seeks to implement two of the revenue-related measures announced in the 2004/05 Budget (see TechWatch Issue No. 22), has been introduced into the Legislative Council ("LegCo") on 28 April 2004. A copy of the Bill may be accessed at the LegCo's website at:
http://www.legco.gov.hk/yr03-04/english/bills/brief/b45_brf.pdf .

The first proposal is to extend the entitlement for home loan interest under salaries tax and personal assessment by two years, from five to seven years, with the maximum deduction in any year maintained at HK$100,000. This is intended to take effect from the 2003/04 year of assessment.

The second proposal is to extend the scope of the profits tax deduction for research and development expenses to cover expenses on design-related activities, with a view to facilitating the proposed "DesignSmart" initiative, which aims to strengthen the Government's support for design and innovation. The measure is proposed to take effect from the 2004/05 year of assessment.

The extension of the entitlement period for the home loan interest deduction is estimated by the Government to cost $4.6 billion over 5 years, while the extension of the scope of the profits tax deduction for research and development expenses will cost $30 million in a full year.

Innovation & Technology

20. HKSA IT Risk Management Course Graduates Delivered Top Quality IT Risk Solution Proposals

The first batch of 14 members taking the HKSA Executive Certificate Course in IT Risk Management graduated on 27 March 2004. The graduation marked the milestone of HKSA's initiative to upgrade the IT competency of its members.

The course design and the learning process did not end at finishing the classroom lectures. Members were required to compile an IT risk solution proposal against an assigned case analysis in a real life scenario. By compiling this proposal, the members had the opportunity to apply what they have leant from the 8-Saturdays sessions to practice. Furthermore, they were required to present their solutions to a panel of judges, using PowerPoint as a visual aid. This would further strengthen their soft skills of communication.

News coverage with video clippings of this presentation and graduation ceremony can be viewed at: http://202.64.59.203/hksaNews/details_frame.asp?ID=67&pos=middle . The best project submission can be viewed at: http://www.hksa.org.hk/newsbureau/best_project.pdf .

Comment Key Dates

Date	**Subject**
7 July 2004	Hong Kong Invitation to Comment on IASB exposure draft of proposed limited amendments to IAS 39 *Financial Instruments: Recognition and Measurement* on the Fair Value Option, which has been posted on the IASB's website at: http://www.iasb.org.uk. The Hong Kong Invitation to Comment has been posted on the HKSA's website at: http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/. [IASB deadline: 21 July 2004]
14 August 2004	HKSA Exposure Draft of Proposed Standards and Guidance for HKSA Members in Performing Listing Engagements, which has been posted on the HKSA's website at: http://www.hksa.org.hk/professionaltechnical/assurance/artf/index.php .
Please send comments to commentletters@hksa.org.hk	

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Stephen Chan, Technical Director (Ethics & Assurance) & Head of Department Coordination
Simon Riley, Technical Director (Financial Reporting)
Peter Tisman, Technical Director (Business Members & Specialist Practices)
Gary Wong, Project Director (Innovation & Technology)

Further information on the HKSA Standards & Technical Department is available at:
http://www.hksa.org.hk/professionaltechnical/ .

Hong Kong Society of Accountants
4th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong
Tel: (852)2287 7228 Fax: (852)2865 6776
E-mail: hksa@hksa.org.hk
Website: http://www.hksa.org.hk