



STANDARDS & TECHNICAL

NEWS AT A GLANCE

TechWatch is a publication designed to alert members to topics and issues that impact on CPAs 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](#).

ISSUE 30 • December 2004

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*Season's Greetings from The Institute's Standards & Technical Department
Wishing you a Merry Christmas and a Peaceful and Prosperous New Year*

聖誕快樂 新年進步

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Further information on the [HKICPA Standards & Technical Department](#) and [previous issues of TechWatch](#) are available at the HKICPA's website.

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Members' Handbook

1. Enhanced Desktop (CD-ROM) Version Of The HKICPA Members' e-Handbook

A new CD-ROM containing an enhanced version of the HKICPA Members' e-Handbook has been issued to all members under cover of a [letter](#) dated 3 December 2004 for off-line use with the following enhanced features:

1. Auto-started installation wizards that provide user-friendly guidance during the installation process.
2. User-definable installation path.
3. Automatic detection of screen resolution, i.e. 800x600 or 1024x768.
4. Suppressible "index" column.
5. Retractable and resizable screen.
6. Better 'cursor-on' user interface on the 'Index' column.
7. No more pop-up windows during the Smart Update process.
8. Shortened downloading time due to built-in intelligence in the Smart Update programs.

Any comments and feedback on the enhanced e-Handbook are most welcome, which should be sent to Raymond Hung, Assistant Director (Information Technology) at rhung@hkicpa.org.hk.

2. Update No. 9 Issued

[Update No. 9](#) was issued in December 2004 enclosing the following:

Financial Reporting Standards – Volume II

- HKAS 7 *Cash Flow Statements*
- HKAS 11 *Constructions Contracts* (revised)
- HKAS 17 *Leases*
- HKAS 19 *Employee Benefits*
- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- HKAS 23 *Borrowing Costs*
- HKAS 24 *Related Party Disclosures*
- HKAS 27 *Consolidated and Separate Financial Statements* (revised)
- HKAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*
- HKAS 31 *Investments in Joint Ventures*
- HKAS 40 *Investment Property*
- HKAS 41 *Agriculture*
- HKAS-Int 10 *Government Assistance - No Specific Relation to Operating Activities*
- HKAS-Int 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*
- HKAS-Int 15 *Operating Leases - Incentives*
- HKAS-Int 21 *Income Taxes - Recovery of Revalued Non-Depreciable Assets*
- HKAS-Int 25 *Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders*
- HKAS-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- HKAS-Int 29 *Disclosure - Service Concession Arrangements*
- HKAS-Int 31 *Revenue - Barter Transactions Involving Advertising Services*
- HKAS-Int 32 *Intangible Assets - Web Site Costs*

Further details on the above new and revised Standards and Interpretations are set out in the "Financial Reporting" section below.

Technical Update Evening (TUE)

3. TUE Programme – January 2005 Sessions

The December 2004 re-run sessions on 7th December (New Quality Control Standards for Auditors) and 14th December (Revised Standards on Fraud Consideration and Audit Planning for Auditors) were held with over 60 members attending. The January 2005 [TUE sessions](#) also feature a number of important new auditing standards:

- a. New Audit Risk Standards Introduce Risk-Based Audit Approach (10 January 2005) (*re-run*)
- b. 21 Replacement Hong Kong Auditing Standards (17 January 2005) (new)

To secure your seats, please register early by completing the [registration form](#) and returning it to the HKICPA.

Financial Reporting

4. Revised Transitional Provisions For HKAS 32 And HKAS 39 Issued

The HKICPA has issued revised transitional provisions for [HKAS 32 Financial Instruments: Disclosure and Presentation](#) and [HKAS 39 Financial Instruments: Recognition and Measurement](#). These revised transitional provisions are to replace the transitional provisions specified previously in those Standards. The revisions are mainly to:

- permit early adoption;
- allow entities with prior year figures available to restate and provide comparative disclosures; and
- disallow restatement for past hedge accounting and past recognition.

The revised HKAS 32 and HKAS 39 that include these revised transitional provisions are available on the HKICPA's website. These revised transitional provisions have been published as part of [Update No. 8](#) to the HKICPA Members' Handbook.

5. Three New Accounting Standards And Six New Interpretations Issued

The HKICPA has issued the following new Standards and Interpretations that are converged with the equivalent Standards and Interpretations issued by the International Accounting Standards Board (IASB) with effect for annual accounting periods beginning on or after 1 January 2005 (with earlier adoption encouraged):

- HKAS 19 *Employee Benefits*
- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- HKAS 41 *Agriculture*
- HKAS-Int 10 *Government Assistance – No Specific Relation to Operating Activities*
- HKAS-Int 25 *Income Taxes – Changes in the Tax Status of an Enterprise or Its Shareholders*
- HKAS-Int 27 *Evaluating the Substance of Transaction Involving the Legal Form of a Lease*
- HKAS-Int 29 *Disclosure – Service Concession Arrangements*
- HKAS-Int 31 *Revenue – Barter Transactions Involving Advertising Services*
- HKAS-Int 32 *Intangible Assets – Web Site Costs*

These new Standards and Interpretations will replace the following:

- SSAP 34 *Employee Benefits*
- SSAP 35 *Accounting for Government Grants and Disclosure of Government Assistance*
- SSAP 36 *Agriculture*
- Interpretation 14 *Evaluating the Substance of Transaction Involving the Legal Form of a Lease*
- Interpretation 16 *Disclosure – Service Concession Arrangements*
- Interpretation 17 *Revenue – Barter Transactions Involving Advertising Services*
- Interpretation 19 *Intangible Assets – Web Site Costs*
- Interpretation 21 *Income Taxes – Changes in the Tax Status of an Enterprise or Its Shareholders*

The new Standards and Interpretations were issued under [Update No. 9](#) to the HKICPA Members' Handbook in December 2004.

6. **HKICPA Announces Completion Of Its Convergence Project**

With the issue of the following new Standards and Interpretations resulting from the Exposure Draft of proposed convergence of Hong Kong accounting standards with international accounting standards (ED/Convergence), the HKICPA completed its convergence policy and the suite of financial reporting standards applying in Hong Kong (HKFRS) will be fully converged with the International Financial Reporting Standards (IFRS) issued by the IASB effective for accounting periods beginning on or after 1 January 2005:

- HKAS 7 *Cash Flow Statements*
- HKAS 17 *Leases*
- HKAS 23 *Borrowing Costs*
- HKAS 24 *Related Party Disclosures*
- HKAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*
- HKAS 31 *Investments in Joint Ventures*
- HKAS 40 *Investment Property*
- HKAS-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*
- HKAS-Int 15 *Operating Leases – Incentives*
- HKAS-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*

These new Standards and Interpretations are to replace the following SSAPs and SSAP Interpretation:

- SSAP 13 *Accounting for Investment Properties*
- SSAP 14 *Leases*
- SSAP 15 *Cash Flow Statements*
- SSAP 20 *Related Party Disclosures*
- SSAP 21 *Accounting for Interests in Joint Ventures*
- SSAP 23 *Borrowing Costs*
- Interpretation 20 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*

The new Standards and Interpretations were issued under [Update No. 9](#) to the HKICPA Members' Handbook in December 2004.

A [press release](#) on the HKICPA's announcement about the completion of convergence of HKFRS with IFRS can be found on the HKICPA's website.

7. Progress On Financial Reporting For Small And Medium-Sized Entities

After a second round of consultation, the HKICPA announced that, by mid-2005, it would issue its final financial reporting framework and standards for small and medium-sized entities.

Commonly referred to as “Small GAAP” – GAAP standing for generally accepted accounting principles – the framework is proposed for Hong Kong companies that prepare financial statements in accordance with section 141D of the Companies Ordinance, and to several other types of entities.

The framework is being developed by the Institute’s GAAP for Small Businesses Working Group. The group will send out a paper for comment in January 2005 to gather final comments from the business community. According to Mr. Paul M.P. Chan, Vice President of the Institute and Chairman of the Working Group, the small GAAP standards are favoured by businesses because the reporting is based on a historical cost model and thus less cumbersome.

The HKICPA is planning to release the final standards by the middle of 2005, and these standards will apply to qualifying entities’ financial statements covering reporting periods that begin on or after 1 January 2005.

A [press release](#) about the HKICPA’s announcement can be found on the HKICPA’s website.

Audit & Assurance

8. Progress On International Convergence And New Structure Of Auditing Standards

HKICPA Technical Director (Ethics & Assurance) Stephen Chan has written [an article](#) for The Hong Kong Accountant December 2004 issue which explains the progress of converging Hong Kong Auditing Standards with International Auditing Standards and the new structure of Hong Kong Auditing Standards, and urges firms to make an early start to tackle the change.

The new structure of Hong Kong Auditing Standards is made up of:

- Hong Kong Standards on Quality Control (HKSQC);
- Hong Kong Framework for Assurance Engagements;
- Hong Kong Standards on Auditing (HKSA);
- Hong Kong Standards on Review Engagements (HKSRE);
- Hong Kong Standards on Investment Circular Reporting Engagements (HKSIR);
- Hong Kong Standards on Assurance Engagements (HKSAE); and
- Hong Kong Standards on Related Services (HKSRS).

All firms should start to look at their training schedules, their audit software, audit materials and audit documentation.

For a better understanding of the progress of the convergence with International Auditing Standards, look up the [comparison table](#) between Hong Kong Auditing Standards and International Auditing Standards on the HKICPA’s website.

9. **New Practice Note For Bank Auditors**

Practice Note (PN) 830, “Reports By Auditors Under the Banking Ordinance” will be issued shortly to replace Industry Auditing Guideline 3.401, “Authorized Institutions in Hong Kong”. The PN has been prepared in consultation with the Hong Kong Monetary Authority (HKMA).

The PN covers the following reporting responsibilities by auditors under the Banking Ordinance:

- a. Reporting on banking returns under section 63(3);
- b. Reporting on systems of internal control for the preparation of banking returns under section 63(3A);
- c. Ad hoc reporting commissioned by the HKMA under section 59(2);
- d. Notification of audit qualifications or adverse statements under section 59A(2)(c);
- e. Reporting of significant adverse matters and non-compliances with the Securities and Futures Ordinance under sections 63A and 63B;
- f. Notification of resignation of auditors under section 59A(2); and
- g. Reporting of factual findings in relation to a voluntary revocation of authorization of an authorized institution.

The PN also provides guidance on auditors’ ad hoc communications with the HKMA under the protection of section 61 of the Banking Ordinance.

Example reports by auditors provided in Appendix 1 to the PN have been drafted to make reference to the newly issued HKSAE 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” for the performance of assurance engagements, and re-issued HKSRS 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” for the performance of agreed-upon procedures engagements.

Corporate Governance

10. **HKICPA Comments On The Proposal To Split The Posts Of Chairman And Chief Executive Officer Of The SFC**

Following an invitation for submissions from the LegCo Panel on Financial Affairs, the HKICPA commented on the proposal to split the posts of chairman and chief executive officer (CEO) of the Securities and Futures Commission (SFC) and the [Administration’s paper](#) on the proposal.

The Institute supports the proposal to split the two posts so as to separate the duties and functions of the chairman and the CEO, and avoid the concentration of authority in one position. This is in line with good corporate governance practice, and is one of the recommended best practices advocated by the Institute in the public sector corporate governance guide, entitled “[Corporate Governance for Public Bodies – A Basic Framework](#)”, published in May this year.

The Institute also commented on various detailed issues relating to the proposal, including:

- whether the chairman should be an executive or non-executive member of the board;
- the independence of the chairman;
- the respective roles, responsibilities and accountabilities of the chairman and the CEO;
- whether the chairman should be a full-time or a part-time chairman; and
- the remuneration of the chairman.

The Institute's views on the above matters are set out in the [submission](#), which is available on the HKICPA's website.

Taxation

11. HKICPA Submits Its Budget Proposals 2005/06 To The Financial Secretary

The HKICPA made a submission on the 2005/06 Budget to the Financial Secretary on 2 December 2004. The proposals were entitled, "In FOCUS – The Core Strengths of Hong Kong's Tax System" in which the key word "focus" reflects the following themes:

- Fundamentals (including the need for broad-based taxation – GST)
- Opportunities (improving the tax system, incentives, etc.)
- Community (i.e. measures benefiting the community)
- Understanding (the need for clarity and certainty)
- Saving (i.e. cutting expenditure)

The [Budget Proposals](#), which contain a summary of the main recommendations in section A1.4, can be accessed on the HKICPA website.

Corporate Restructuring & Insolvency

12. The ORO Issues Revised "Simple Guide On Compulsory Winding-Up Of Companies"

The Official Receiver's Office (ORO) has revised its "[Simple Guide on Compulsory Winding-up of Companies](#)" to include more detailed and updated information in relation to compulsory winding-up of companies. The revised Guide can be accessed on the ORO's website.

13. The ORO Issues Tender Notice - Taking Up Of Appointment To Complete Preliminary Examination In Bankruptcy Cases

The Official Receiver's Office (ORO) has issued a [Tender Notice - Taking up of appointment to complete preliminary examination in bankruptcy cases \(Tender Ref: OR/B/2005\)](#), together with the Terms of Tender (supplement), and Annex 1 (Interpretation). The notice also appeared in the Government Gazette on 10 December 2004. The deadline for submission of tenders is 12:00 noon on 19 January 2005.

14. HKICPA Comments On The Bankruptcy (Amendment) Bill 2004

As reported in [TechWatch Issue No. 28](#), the Bankruptcy (Amendment) Bill 2004 (“Bill”) amends the Bankruptcy Ordinance (Cap. 6) to facilitate the outsourcing by the Official Receiver’s Office (“ORO”) of bankruptcy cases to private sector insolvency practitioners (“PIPs”). The Bill is based on the Bankruptcy (Amendment) Bill 2003, which was first introduced into the Legislative Council (“LegCo”) in December 2003, but lapsed as it was not enacted before the expiry of the previous LegCo term.

The HKICPA’s Insolvency Practitioners Committee considered the Bill and a submission has been issued to the Bills Committee. Representatives of the Institute also attended a Bills Committee meeting on 15 December 2004.

As indicated in the [LegCo Brief](#), after deducting the costs and disbursements incurred by the ORO, the balance of the deposits given by bankruptcy petitioners will be transferred to the accounts of provisional trustees and trustees. This balance will form the assets of the bankrupts’ estates, and PIPs may be remunerated according to the priority set out in the Bankruptcy Ordinance. The LegCo Brief states that no additional resources are required to meet the remuneration of PIPs.

The submission expresses the view that the Bills Committee should be made aware that most bankruptcies are non-remunerative, and that a framework need to be put in place to ensure that there will be sufficient funds available to cover the remuneration of suitably qualified and experienced PIPs for work properly undertaken as trustee. As the deposit is likely to be the only or the major source of income for trustees in most cases, clarification is sought as to how much the ORO is likely to deduct from the petitioner’s deposit to cover his own costs and expenses. More generally, the submission seeks further information on how the ORO envisages the contracting out arrangements will work.

Clause 3 of the Bill provides for the OR to appoint another person as provisional trustee in his place where he considers that the value of the property of the bankrupt is unlikely to exceed HK\$200,000. This is similar to the administrative arrangement previously known as the Panel B scheme, and now the tender scheme, for contracting out summary company liquidation cases, which is provided for under section 194(1A) of the Companies Ordinance (Cap. 32). The OR indicated at the Bills Committee meeting that he also envisages introducing a tender scheme in relation to bankruptcy appointments.

In order to ensure that cases above the HK\$200,000 threshold are not inadvertently included in the tender scheme (usually the creditors in larger cases would want to nominate the trustee directly), the submission proposes that, where the ORO believes that the bankrupt’s property will not exceed the HK\$200,000 limit, the department should support its view with reasons and confirm to the court that reasonable enquiries have been made. Where the ORO is unable to form a view, arguably no appointment should be made under the relevant provisions.

Clause 27 of the Bill, which adds a new section 85A into the Bankruptcy Ordinance, provides that the remuneration of the provisional trustee, or the trustee under section 112A of the Bankruptcy Ordinance (*Application of Ordinance to small bankruptcies*), where that is not the OR, will be fixed by the OR in accordance with a scale of fees or on such other basis as the OR may from time to time approve in writing. There is a concern that this provision is too open-ended and could create uncertainty. The HKICPA considers that a PIP should be able to know the basis on which he will be remunerated before taking on a case. The submission asks for information on the possible bases of

remuneration that might be applied and the circumstances under which they might be applied. Given the doubts that have been raised at different times by the court and others about the basis of remuneration of liquidators in corporate winding up cases, it is proposed that the opportunity be taken to ensure greater clarity at the outset in this Bill.

Other detailed and technical points in relation to the Bill are contained in the [submission](#).

Listing & Securities

15. Revisions To The Takeovers Codes To Keep Them Up-To-Date With Market Developments And International Practice

The Securities and Futures Commission (SFC) published in November 2004 a [Consultation Paper](#) on a Review of the Codes on Takeovers and Mergers and Share Repurchases (“Codes”). The deadline for submission of comments is 14 January 2005.

The Consultation Paper proposes various amendments to the Codes to keep them up-to-date with market developments and international practice which resulted from a review by the SFC in consultation with the Takeovers Panel and market practitioners. The SFC has also considered recent changes to the London Takeovers Code where appropriate.

The proposed key changes to the Codes are:

1. Proposal dealing with “one cent” or “low ball” hostile offers.
2. Proposal for change to address the risks to shareholders that arise from an incumbent board taking deliberate lawful action to frustrate the exercise of board control by a successful offeror.
3. Proposed changes relating to vetting of documents under the Codes.
4. Possible changes to the Codes to provide a framework for dealing with telecom mergers that are subject to review by the Telecommunications Authority under the new laws introduced in July 2004.

The HKICPA’s [Expert Panel on Listing](#) will prepare a submission to the SFC on the Consultation Paper.

Legislation & Government Initiatives

16. CPA Involved With Charitable Fund-Raising Activities Should Pay Attention To SWD’s Revised Guidance Note On Internal Financial Controls

The Social Welfare Department (SWD) of the Government has published a revised version of the [“Guidance Note on Internal Financial Controls for Charitable Fund-raising Activities”](#) (“Guidance Note”). The Guidance Note proposes some basic controls to be considered by charitable fund-raising organisations with a view to ensuring that the income generated from charitable fund-raising activities is spent for the designated purpose and that such income and expenditure are properly documented.

17. Public Consultation On The Review Of Certain Provisions Of The Copyright Ordinance

The Government has recently released a further [consultation document](#) on the review of certain provisions relating to end-user criminal liability, copyright exemption and a number of other aspects in the Copyright Ordinance (Cap. 528). There have been several previous consultations on this subject. Members may wish to refer to [TechWatch Issue Nos. 1, 14 and 16](#) for additional background information. The deadline for submissions in respect of the current consultation document is 15 February 2005.

The HKICPA is considering the consultation document and will keep members informed of any significant developments on the matter.

18. Updates From Companies Registry

- [Implementation of prospectus-related provisions of Companies \(Amendment\) Ordinance 2004 and the related Companies Registry External Circular No. 2/2004](#)
- [Standing Committee on Company Law Reform releases its 20th Annual Report 2003/04](#)

Comment Due Dates

Date	Subject
31 December 2004	Exposure Draft of Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services, which has been posted on the HKICPA's website .
7 January 2005	Invitation to Comment on IAASB ED on ISA 230 (Revised) "Audit Documentation", which has been posted on the HKICPA's website .
28 February 2005	Hong Kong Invitation to Comment on the IFRIC Draft Interpretation: D10 <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i> , which has been posted on the IASB's website . The Hong Kong Invitation to Comment has been posted on the HKICPA's website . [IASB deadline: 11 February 2005]
28 February 2005	Exposure Draft of 21 Proposed Hong Kong Standards on Auditing and Review Engagements, which has been posted on the HKICPA's website .
Please send comments to commentletters@hkiipa.org.hk	