



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, Executive Director by [email](#).

ISSUE 33 • May 2005

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TechWatch is prepared by the Hong Kong Institute of CPAs Standards & Technical and Quality Assurance Departments and is intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Institute endeavours to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted by the Institute.

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Spotlight

1. Mark Your Diary For 9 June – Financial Reporting Standards Forum and Roundtable Luncheon With IASB Chair As Keynote Speaker

To enable major stakeholders in Hong Kong to broaden and deepen their participation in international standard setting, the Institute will regularly host Financial Reporting Standards Forums to collect and exchange views with major stakeholders in the financial reporting supply chain. The Forum is for CEOs and CFOs of listed and multi-national corporations, auditors, regulators and academia.

The inaugural Forum will be held on 9 June 2005 with Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB), giving his views and updates on the international standard setting process, the latest work of the IASB, the schedule for world convergence including major convergence issues, the importance of constituent participation in international standard setting and issues relating to interpretation and enforcement of International Financial Reporting Standards. This will be a good opportunity for you to gain first-hand knowledge of how international standard setting impacts financial reporting in Hong Kong, and to put your questions to Sir David and other experts.

The Forum will continue with discussions on HKFRS application issues during which you can put questions to the panel of experts.

A **Roundtable Luncheon**, with Sir David delivering a keynote speech on “Globalisation and International Financial Reporting Standards”, will follow the Forum.

Seats are limited. *Click to [learn more and register](#).*

2. Institute Issues Report Of Findings On Review Of Published Accounts

The Professional Standards Monitoring Committee (PSMC) issued its **Operations Report** on last year's review of 152 sets of financial statements of listed companies. The PSMC's review is changed to a regulatory perspective this year, which is in line with the Institute's goal of keeping Hong Kong's accounting profession among the most respected in the world.

As part of the Institute's self-regulatory function, the PSMC has been conducting a continuous review of the published financial statements of listed companies since 1988. The purpose of the review is to monitor the professional standards in the audit or preparation of the financial statements of listed companies.

It is hoped that the publication of the PSMC's findings achieves the Institute's role of monitoring the work of CPAs to improve the quality of financial reporting.

Limited printed copies are made available at the Institute's reception counter.

3. Apply Now To Become A Member Of The New Taxation Interest Group

The Institute is launching a new **Taxation Interest Group** (TIG), which will host a range of activities, including forums, seminars and networking events. Membership of the TIG is open to members of the Institute and staff of member firms.

The TIG will formally be launched at a **cocktail reception** to be held for TIG founding members on 10 June 2005, at which the Commissioner of Inland Revenue, Mrs. Alice Lau, will be the guest of honour.

4. **Institute Issues Handbook Updates No. 13 and 14**

Update No. 13 enclosed Professional Ethics Statement 1.207A – *Change of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong*, which is effective for resignations of auditors of listed issuers which take place on or after 1 June 2005. Further details are set out in paragraph 13 below.

Update No. 14 enclosed three re-issued HK Interpretations and one new HK Interpretation. Further details are set out in paragraphs 6 and 7 below.

CPD & Events

5. **June And July 2005 Programme**

- **SMPs to attend Dinner Forum on Benchmarking Professional Accounting Practices (23 June)**

Attend this forum to find out more about the Membership Survey for Benchmarking Professional Accounting Practices. It will help you make your mark in the accounting industry, know where you are and how to drive business growth and be successful in the fast-paced business environment by identifying trends, issues and opportunities within the profession. Click [here](#) to enroll.

- **Enrol early to secure a seat in the following popular CPD events**

- 中國外匯管理條例 (7 June)
- Abolition of Estate Duty – Impact on Trust Re-organisation (8 June)
- Trust Management and Administration (9 June)
- Current Updates and Planning Ideas on Salaries Tax (15 June)
- Insolvency Guidance Notes (20 June)
- Applying the Financial Instrument Standards, HKAS 32 and 39 (25 June)
- The Role of Accountant in Arbitration (4 July)
- Tax Planning and Investigation in One Lesson (8 July)
- Securities and Futures (Financial Resources) Rules (12 July)
- Practice Review Workshop on “Documentation” (23 July)
- Issues in applying HKAS 16, 17 and 40 (Re-run) (26 July)

Click for [more programmes and to register](#).

- **Come to the Technical Update Evenings (TUE) and exchange views with the Technical Directors**

- New Quality Control Standards for Auditors (14 June)
- Revised Standards on Fraud Consideration (5 July)

Click for [details and registration](#).

Financial Reporting

6. Institute Changes The Names Of Financial Reporting Interpretations

- HKFRS Interpretations and HKAS Interpretations are renamed as HK(IFRIC) Interpretations and HK(SIC) Interpretations respectively;
- Local Interpretations developed by the Institute are renamed as HK Interpretations.

The above changes are to address the concern that the existing names of the Interpretations (i.e. HKFRS-Int, HKAS-Int and SSAP-Int) give a wrong impression that each category is linked to a particular category of Standards. The above changes also distinguish the Interpretations in Hong Kong that are based on the equivalent international Interpretations (IFRIC and SIC Interpretations) and those that are developed by the Institute locally.

Following the changes in names, the Institute re-issued as part of **Update No. 14** the following HK Interpretations:

- HK Interpretation 1 *The Appropriate Policies for Infrastructure Facilities* (previously SSAP-Int 22)
- HK Interpretation 2 *The Appropriate Policies for Hotel Properties* (previously SSAP-Int 23)
- HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties* (previously SSAP-Int 24)

7. Institute Issues New Interpretation On Determination Of The Length Of Lease Term

HK Interpretation 4, which was issued as part of **Update No. 14**, addresses the issue of how the length of the lease term of a Hong Kong land lease should be determined for the purpose of applying the amortisation (depreciation) requirements under HKAS 16 and HKAS 17, as appropriate. This Interpretation concludes that lease term of a Hong Kong land lease should be determined by reference to the legal form and status of the lease. Renewal of a lease term is assumed only when the lessee has a renewal option and it is reasonably certain at the inception of the lease that the option will be exercised. Options for extending the lease term that are not at the discretion of the lessee shall not be taken into account by the lessee in determining the lease term. It became effective on 24 May 2005.

8. Institute Invites Comments

(a) Proposed Amendments To IFRS 6 And IFRS 1

The Institute has issued an **Invitation to Comment** on the IASB Exposure Draft on Proposed Amendments to IFRS 6 *Exploration for and Evaluation of Mineral Resources* and IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Consultation closed on 27 May 2005.

The IASB Exposure Draft seeks to clarify that the exemption in IFRS 1 applies not only to comparative disclosures for IFRS 6, but also to the recognition and measurement requirements of IFRS 6 to the comparative period.

(b) IFRIC Draft Interpretations: D16 Scope Of IFRS 2 And D17 IFRS 2 – Group And Treasury Share Transactions

The Institute has issued an [Invitation to Comment](#) on the IFRIC Draft Interpretations: D16 and D17, requesting comments by **4 July 2005**.

The proposed Interpretation D16 seeks to clarify that transactions within the scope of IFRS 2 *Share-based Payments* include those in which the entity cannot specifically identify some or all of the goods or services received.

The proposed Interpretation D17 seeks to give guidance on whether share-based payment transactions involving treasury shares, or two or more entities within the same group of entities should be accounted for as cash-settled or equity-settled share-based payment transactions under IFRS 2.

9. FRSC Meeting Summary – 18 April 2005

The [FRSC meeting summary](#) of 18 April 2005 covers:

- Regional Standards Setters Meeting, Bangkok 22 March
- Meeting with IRD re Interpretation 24 (now HK Int 3) *Revenue – Pre-completion Contracts for the Sale of Development Properties*
- SEHK draft announcement re proposed disclosure requirements in relation to the impact of adopting new accounting standards for listing applicants and other circulars
- Determination of the residual value of a Hong Kong property
- Proposed amendments to HKAS 24 *Related Parties Disclosures*
- Proposed amendment to the effective date of the option in paragraphs 93A-93D of HKAS 19 Amendment
- Response from the SEHK re the Committee's request for amending the Listing Rules to cater for the treatments under HKAS 40
- Comments received on the Valuation Standards issued by the HKIS
- Revised Terms of Reference
- Names of Interpretations

Audit & Assurance

10. Institute Invites Comments On Audit Report Exposure Drafts

Comments are invited by **8 July 2005** on the following [Audit Report Exposure Drafts](#):

- (1) Proposed HKSA 700 "The Independent Auditor's Report on a Complete set of General Purpose Financial Statements"
- (2) Proposed ISA 705 "Modifications to the Opinion in the Independent Auditor's Report"
- (3) Proposed ISA 706 "Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report"

The proposed HKSA 700 establishes standards and provides guidance on the independent auditor's report issued as a result of an audit of a complete set of general purpose financial statements prepared in accordance with a financial reporting framework that is designed to achieve fair presentation.

The proposed ISA 705 establishes standards and provides guidance, including illustrative examples, on circumstances that may result in a modification to the auditor's opinion on the financial statements.

The proposed ISA 706 establishes standards and provides guidance on circumstances when the auditor includes an "emphasis of matter paragraph" or considers whether to include an "other matters paragraph" in the auditor's report, and on the form and placement of such a paragraph.

It is intended that the proposed HKSA 700, ISA(HKSA) 705 and ISA(HKSA) 706, when finalised, will be applicable for auditor's reports dated on or after 31 December 2006 (which is also the effective date of the equivalent ISAs) and that the extant SAS 600, "Auditors' report on financial statements" will remain applicable for auditor's reports dated before 31 December 2006.

11. Institute Comments On IAASB EDs Of Proposed Revisions To ISAs On Documentation, Audit Materiality And Accounting Estimates

In the Institute's submissions, we are supportive of the proposed revisions to the ISAs but also set out our comments which should be considered carefully by the IAASB before finalising the revised ISAs.

- (a) **Submission** on Proposed revised ISA 230 "Audit Documentation"
- (b) **Submission** on Proposed revised ISA 320 "Materiality in the Identification and Evaluation of Misstatements"
- (c) **Submission** on Proposed revised ISA 540 "Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)"

12. AASC Meeting Summary – 15 March 2005

The **AASC meeting summary** of 15 March 2005 covers:

- Meeting Schedule for the Rest of 2005
- Invitation to Comment on IAASB ED of ISA 230 (Revised) "Audit Documentation"
- Proposed Practice Note "Guidance to Auditors with Regard to Preliminary Announcements of Results for the Full Year"
- Mainland Audit Issues Working Group – Progress Report
- Annual Auditing Update Conference 2005 – Saturday, 23 April 2005
- A referral from the Corporate Finance Committee on the Consultation Paper on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules
- Proposed ED/1.207A "Change of Auditors of a Listed Issuer of the Stock Exchange of Hong Kong"
- Continuing Connected Transactions
- Auditors' Report on Financial Statements of Investment Funds Authorized under the SFC Code on Unit Trusts and Mutual Funds
- Update on the Progress of the Proposed HKSIR 400

Ethics

13. Standard To Seek Improvement In Information Made Available In Audit Resignation Letters – Effective 1 June 2005

The Institute has issued **Professional Ethics Statement 1.207A** – *Change of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong*, prepared in consultation with the Stock

Exchange of Hong Kong Limited and the Securities and Futures Commission, to enhance improvement in information made available in the resignation letters of auditors of listed issuers. This Statement is effective for all resignations of auditors of listed issuers which take place on or after 1 June 2005.

Corporate Finance

14. Impact Of New Accounting Standards On Financial Information In Initial Listing Documents And Circulars

The Stock Exchange has issued an **announcement** setting out the additional disclosure requirements applicable in relation to the impact of the new Hong Kong Financial Reporting Standards and International Financial Reporting Standards that became effective for accounting periods beginning on or after 1 January 2005 (“New Standards”).

The announcement sets out the circumstances under which the following information is required or encouraged to be disclosed:

- qualitative information on the prospective changes in accounting policies in relation to the New Standards;
- the financial effect of the prospective changes on the net profits and net assets.

The announcement states that listing applicants are generally encouraged to adopt the New Standards early. A listing applicant may choose to prepare its financial information in the accountants’ report using the applicable Old Standards (i.e. accounting standards with an effective date earlier than 1 January 2005) or to adopt some or all of the New Standards early.

For the purpose of Main Board Listing Rule 8.05, the profit requirement will be assessed with reference to historical financial information prepared using either the Old Standards in their entirety, or the New Standards in their entirety.

15. Institute Comments On Proposal To Give Statutory Backing To Listing Rules

As reported in **TechWatch No. 31**, the Securities and Futures Commission (SFC) published a **Consultation Paper** to seek comments on proposed amendments to the Securities and Futures (Stock Market Listing) Rules (SMLR), as part of the process of codifying the more important requirements in the existing Listing Rules into subsidiary legislation under the Securities and Futures Ordinance (SFO).

As regards the principles in drafting the proposed SMLR, the Institute’s **submission** reiterates some of the comments raised previously in the Institute’s **response** to the related Government **Consultation Paper on Proposed Amendments to the Securities and Futures Ordinance to Give Statutory Backing to Major Listing Requirements** (reported in **TechWatch No. 32**). The Institute’s latest submission points to potential pitfalls and problems with the proposals to give statutory backing to certain Listing Rules and related implementation issues, and suggests that the approach of codifying detailed Listing Rules into provisions in the SMLR should be reconsidered. The submission also asks whether incorporating detailed rules, rather than just the broader principles, into the legislation, is the most appropriate approach.

As regards the scope of the rules to be given statutory backing, the Institute submits that, other than in relation to the disclosure of price-sensitive information, there is no strong objection to the proposed areas to be codified in the statute. The Institute also does not have any major

objection to the substantive changes to the Listing Rules that the SFC has proposed to make in conjunction with the codification of the relevant rules. However, the submission points out that there appear to be a number of other potentially material differences between the existing Listing Rules and the draft SMLR, which have not been identified as such. The submission suggests that the SFC should highlight and explain all the material differences and potential inconsistencies and, where appropriate, seek comments on them.

While raising a basic question over whether detailed rules should be codified, the Institute has, nevertheless, provided comments on the drafting of the proposed SMLR, in the event that the government/SFC still wish to adopt this approach.

Taxation

16. Meeting With The IRD On Tax Implications Of HK Interpretation 3 Revenue – Pre-completion Contracts For The Sale Of Development Properties

A meeting was held between the Institute and the Inland Revenue Department (IRD) in March 2005, seeking clarification on the tax implications of the transitional provisions in HK Interpretation (HK-Int) 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*.

The transitional provisions in HK-Int 3 provides that a taxpayer can choose whether or not to apply HK-Int 3 retrospectively to pre-completion contracts for the sale of development properties entered into before 1 January 2005. If the taxpayer chooses not to apply HK-Int 3 retrospectively, it should continue to account for those contracts using the method of accounting used prior to the application of HK-Int 3.

At the meeting, the IRD confirmed that, under the transitional provisions, where a taxpayer chooses to make prior year adjustments in respect of the pre-completion contracts for the sale of development properties entered into before 1 January 2005, there will be no double taxation of profits that have already been booked under the percentage of completion method.

On the submission of accounts supporting the tax return for the current year, the taxpayer should indicate which part of the revenue has already been included in the previous years' tax returns. The Institute understands that the IRD will base calculations on the profit already assessed rather than the tax already paid.

Comment Due Dates

DATE	SUBJECT
30 June 2005	Invitation to Comment on IAASB EDs of Proposed ISA 600 (Revised) "The Audit of Group Financial Statements" and Proposed ISA 260 (Revised) "The Auditor's Communication with Those Charged with Governance"
4 July 2005	Invitation to Comment on IFRIC Draft Interpretations: D16 <i>Scope of IFRS 2</i> and D17 <i>IFRS 2 - Group and Treasury Share Transactions</i>
8 July 2005	Invitation to Comment on Exposure Draft of proposed HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" and IAASB Exposure Drafts of proposed ISA 705 "Modifications to the Opinion in the Independent Auditor's Report" and ISA 706 "Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report"

Please send comments to commentletters@hkiipa.org.hk