



TechWatch

News at a glance



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TechWatch updates you on technical developments in financial reporting, auditing, regulation and business. The Institute welcomes your comment, emailed to < commentletters@hkipa.org.hk >. Click [here](#) for past issues.

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Editors: Mary Lam and Patricia McBride

Other contributors:

Steve Ong, Elaine Chan, Selene Ho and Winnie Chan (Standard Setting Department)

Peter Tisman and Elena Chai (Specialist Practices Department)

Spotlight

1. Handbook Update No. 41

Update No. 41 encloses

- Amendments to CAP. 50 Professional Accountants Ordinance – relating to the establishment of the Financial Reporting Council
- Amendments to CAP. 50A Professional Accountants By-laws – relating to the conduct of general meetings
- HKAS 23 (Revised) *Borrowing Costs* – further details are set out in the “Financial Reporting” section below.

2. Technical Update Evening (TUE)

To secure your seats on TUE 710 (17 July): Exposure Draft of IFRS for SMEs, please register early by completing the [registration form](#) and returning it to the Institute.

3. Annual Taxation Update Conference – Saturday, 14 July 2007

The **Annual Taxation Update** will cover:

- Major changes and developments in current tax practices
- Live case illustrations such as court cases and Board of Review decisions
- Mainland and HK Double Taxation Arrangement plus DIPN 44

Register early to avoid any disappointment.

Financial Reporting

4. HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 (Revised) is effective for annual periods beginning on or after 1 January 2009, the same effective date as IAS 23 (revised) *Borrowing Costs*. Earlier application is permitted.

The revised HKAS 23 requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately recognising those borrowing costs as an expense, which is allowed in the extant HKAS 23, is removed.

HKAS 23 (Revised) supersedes the extant HKAS 23 (issued in December 2004), which is applicable for periods beginning on or after 1 January 2005.

5. Field Tests of the Proposed IFRS for SMEs

The International Accounting Standards Board (“IASB”) has launched a comprehensive programme for field testing the proposals in the Exposure Draft (“ED”) of an International Financial Reporting Standard for Small and Medium-sized Entities (“IFRS for SMEs”) during the comment period. The ED was issued in February 2007 for consultation till October 2007.

The testing seeks to assess the scope, impact and burden of the proposed IFRS for SMEs worldwide and help to identify aspects of the ED that may need reconsideration. Information relating to the field tests is available on the [IASB’s website](#).

Members are encouraged to participate in the field tests or invite their clients to participate.

Audit & Assurance

6. Institute Comments on Proposed ISA 570 (Redrafted) *Going Concern*

The **submission** to the IAASB on the ED of proposed ISA 570 (Redrafted) *Going Concern* indicates that the Institute is supportive of the redrafting and that generally, the objective to be achieved by the auditor, as stated in the proposed redrafted ISA, is appropriate.

Furthermore, the criteria identified by the IAASB for determining a requirement have been applied appropriately and consistently such that

the resulting requirements will promote consistency and use of professional judgement by auditors.

The Institute has also recommended some editorial changes to the proposed ISA 570 (Redraft) for better presentation and clarity.

7. Institute Issues Guidance to Reporting on Gross Fee Income under Solicitors (Professional Indemnity) Rules

The Institute issued a [Circular on Solicitors \(Professional Indemnity\) Rules – Gross Fee Income Report](#) on 4 July 2007 to provide guidance to practicing members in relation to reporting on gross fee income under Rule 8 of the Solicitors (Professional Indemnity) Rules.

The Institute's Auditing and Assurance Standards Committee considers that the Gross Fee Income Report required should be an engagement under Hong Kong Standard on Related Services 4400 *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*.

An illustrative example is provided, which has been developed in consultation with the Law Society of Hong Kong. Practising members are reminded to use their professional judgement to ascertain the exact circumstances of each of their engagements.

8. AASC Meeting Summary – 22 May 2007

This [AASC meeting summary](#) covers:

- Draft submission on IAASB ED of ISA 570 (Redrafted) *Going Concern*
- Social Welfare Project – Progress Report
- Law Society Project – Progress Report
- IAASB Strategy Review Forum in Brussels
- Accountant's Report Project – Progress Report
- Working Group on Securities

Government Legislation & Other Initiatives

9. Institute Comments on Rewriting of the Accounting and Auditing Provisions of the Companies Ordinance

The [submission](#) to the FSTB indicates that the Institute is fully supportive of the government's efforts to rewrite the accounting and auditing provisions of the Companies Ordinance ("CO") to make the law more user-friendly and to provide Hong Kong with a modernised legal infrastructure commensurate with its status as a major international business and financial centre.

In preparing the response, the Institute has consulted members generally and specifically requested the views of those committees at the Institute with specific interests in various provisions of the CO.

Taxation

10. Government Issues Final Report on Tax Reform

The government published [Public Consultation on Tax Reform: Final Report](#) on 12 June 2007. This relates to the consultation on Hong Kong's tax base and a goods and services tax ("GST"), which started in July 2006 and ended on 31 March 2007. The Institute reported progress on the consultation in [TechWatch Nos. 46, 48 and 51](#), including a link to Institute's own submission, issued on 29 March 2007, which examined a number of possible options for broadening the tax base (see [TechWatch No. 54](#)).

The final report notes that, although the government has not succeeded in garnering sufficient support for the introduction of a GST at this point, the public has generally obtained a better understanding of the problems of Hong Kong's narrow tax base and agrees that the tax base should be broadened to stabilise revenues and enhance fiscal health. However, the public does not have any clear views on which option or options should be adopted.

The government still considers that, in light of the principles that should be taken into account in assessing options to broaden the tax base, there is no single option, other than GST, that can satisfy all the conditions. However, no specific proposal for broadening the tax base is put forward in the report, which makes four quite broad recommendations, namely,

- (i) the government should continue to study options and address the fundamental issue at a suitable time in the future;
- (ii) in studying the options, the views collected in the consultation exercise should be taken account of and the public should be further consulted on options that are more practical;
- (iii) the problem of an ageing population is becoming more serious and will bring additional challenges to public finances, so the government should consult the public on health care financing proposals as soon as possible; and
- (iv) to enhance Hong Kong's overall competitiveness, the government should continue to advance education and manpower training and explore sustainable financial arrangements, so as to respond suitably to the needs of the longer term challenges.

11. Revenue Bill 2007 Enacted

The Revenue Bill 2007 was passed by the Legislative Council on 13 June 2007, giving legal effect to the following tax reduction measures proposed by the Financial Secretary in the government's **2007-08 budget**:

- To reduce the rate of duty on alcoholic beverages (other than wine) containing not more than 30 per cent of alcohol, from 40 per cent to 20 per cent, and that on wine from 80 per cent to 40 per cent.
- To reduce the stamp duty on transactions of properties with a value between \$1million and \$2million, from 0.75 per cent to a fixed amount of \$100.

In practice, the above two proposals took effect on Budget Day (28 February 2007), under the Public Revenue Protection (Revenue) Order 2007, which gave temporary legal effect to the relevant measures, pending passage of the Revenue Bill 2007.

Insolvency & Corporate Restructuring

12. Subsidiary Legislation Under the Bankruptcy Ordinance Amended to Facilitate Outsourcing

In July 2005, the Legislative Council enacted the Bankruptcy (Amendment) Ordinance 2005 ("Amendment Ordinance") to empower the Official Receiver ("OR") to outsource bankruptcy cases to qualified private-sector insolvency practitioners, in specified circumstances, where the value of the bankrupt's property is unlikely to exceed \$200,000. Details were reported in [TechWatch No. 35](#).

It should be noted that, apart from sections 1, 12, 19 and 32, the Amendment Ordinance has not yet commenced operation. Before this can take place, consequential amendments to subsidiary legislation under the Bankruptcy Ordinance are necessary for the implementation of the outsourcing scheme. The relevant pieces of amending legislation are:

- Bankruptcy (Amendment) Rules 2007
- Bankruptcy (Forms) (Amendment) Rules 2007
- Bankruptcy (Fees and Percentages) (Amendment) Order 2007
- Proof of Debts (Amendment) Rules 2007

The above Rules and Order seek to amend the references to, and the respective powers and duties of, the OR, the provisional trustee and trustee in the subsidiary legislation in relation to the new outsourcing regime, to clarify that the fee upon presentation of a bankruptcy petition should include any fee on answering a petition or setting down for hearing, and to modernise and streamline certain provisions in the subsidiary legislation. A commencement date for the amended legislation is still to be announced.

As reported in [TechWatch No. 39](#), the Institute issued a submission on the proposed subsidiary legislation in mid-November 2005.

International Meetings

13. International Accounting Standards Board

The IASB met in London on 19 – 22 June 2007 and discussed the following topics:

- Business combinations
- Technical plan
- Leases
- Financial statement presentation
- Post-employment benefits
- Conceptual framework
- Annual improvements process
- Extractive activities
- Short-term convergence: joint ventures
- IFRS 1 amendments
- IFRIC – approval of interpretations
- Financial instruments puttable at fair value and obligations arising on liquidation
- Financial instruments

Click [here](#) to view the June 2007 IASB Update. The IASB next meets on 17 – 20 July 2007.

14. International Financial Reporting Interpretations Committee

The IFRIC will meet in London on 12 and 13 July 2007. Click [here](#) for the meeting papers. Further details about the meeting will be reported in the next issue of TechWatch.

15. International Auditing and Assurance Standards Board

The IAASB will meet in Warsaw, Poland on 9 – 13 July 2007. Click [here](#) for registration and the background papers.

16. International Ethics Standards Board for Accountants

The IESBA met in Berlin on 25 – 27 June 2007. Click [here](#) to read the papers discussed at the meeting, and the forthcoming Meeting Summary.

Comment Due Dates

10 July 2007: IASC Foundation Consultation Document on Proposed Amendments to the IASC Foundation Constitution and the Preface to International Financial Reporting Standards – *Enlarging the IFRIC*.

13 July 2007: IAASB Exposure Draft of ISA 250 (Redrafted) *The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements*

31 August 2007: IAASB Exposure Draft of ISA 200 (Revised and Redrafted) *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*

31 August 2007: IAASB Exposure Draft of ISA 500 (Redrafted) *Considering the Relevance and Reliability of Audit Evidence*

1 September 2007: IASB Exposure Draft of Proposed IFRS for Small and Medium-sized Entities.

29 September 2007: IASB Discussion Paper on *Preliminary Views on Insurance Contracts*

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< commentletters@hkicpa.org.hk >