



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



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@hkicpa.org.hk >. Click [here](#) for past issues.

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Financial Reporting, Auditing and Ethics

New!

1. SMP Forum – Update to Clarified Pronouncements on Auditing (Clarity Project) (Re-run)

The Institute will re-run a forum on Clarity Project on 30 September 2009 for practising members whose work involves the audits of financial statements.

The forum will explain the impact of the 36 clarified HKSA and the clarified Hong Kong Standard on Quality Control 1 on auditors, highlighting the key changes and new requirements.

To secure seats, please register early by completing the [registration form](#).

Members' Handbook

2. Handbook Update No. 68

In **Update No. 68**, the Institute issues amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* – Additional Exemptions for First-time Adopters.

The amendments address the retrospective application of HKFRSs to particular situations and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process.

The amendments:

- exempt entities using the full cost method from retrospective application of HKFRSs for oil and gas assets.
- exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* when the application of their other accounting requirements produced the same result.

Financial Reporting

3. HKFRS Insights on *Improvements to HKFRSs 2008*

The IASB decided to initiate an annual improvements project in 2007 as a method of making necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project.

The IASB's objective is to ease the burden for all concerned by presenting the amendments in a single document rather than as a series of piecemeal changes. The amendments issued are presented in two parts:

- those that involve accounting changes for presentation, recognition or measurement purposes; and
- those involving terminology or editorial changes with minimal effect on accounting.

The Institute issued *Improvements to HKFRSs* to maintain international convergence arising from the issuance of *Improvements to IFRSs* by the IASB.

Some of the improvement changes are matters of detail and may not have a significant impact in practice.

However, there are a number of points that are likely to impact significantly on financial statements. The amendments clarified the required accounting treatment, where previously practice had varied. Principal among these are the new or revised requirements regarding:

- classification as held for sale of the assets and liabilities of a subsidiary where the parent is committed to a plan to sell its controlling interest but intends to retain a non-controlling interest (HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*);
- the reclassification to inventories of property, plant and equipment previously held for rental when the assets cease to be rented and are held for sale, and the recognition of the proceeds of disposal of such assets as revenue (HKAS 16 *Property, Plant and Equipment*);
- the recognition of a government grant arising from government loans at below-

- market interest (HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*);
- recognition of advertising and promotional expenditure as an asset is not permitted beyond the point at which the entity has the right to access the goods purchased or, in the case of services, the point at which the services are received (HKAS 38 *Intangible Assets*); and
- the classification of property under construction for investment purposes as investment property under HKAS 40 *Investment Property*, resulting in it being measured at fair value if that is the entity's general accounting policy for investment property and the fair value of the property under construction can be measured reliably (HKAS 40).

HKICPA Standard Setting Department Staff Summary (November 2008) sets out all of the amendments made to the standards.

Improvements to HKFRSs is effective for annual periods beginning on or after 1 January 2009 (unless otherwise specified), the same effective date as *Improvements to IFRSs*. Earlier application is permitted.

Other references on *Improvements to IFRSs* that members may refer to are:

- **IAS plus** by Deloitte
- **IFRS briefing sheet** by KPMG
- **HKFRS news** by PwC

4. FRSC Minutes

This **FRSC minutes** on 10 August 2009 covers:

- Draft paper on IFRS for SME
- Guidance on the application of Amendments to IAS 17 *Leases* in the Annual Improvements to IFRS 2009
- IAS 39 Replacement Project
- Amendments to HKFRS 1 – *Additional Exemptions for First-time Adopters*
- Submissions on various IASB Discussion Documents

- Major financial reporting activities in second half of 2009
- IASB Exposure Draft (“ED”) of Proposed Amendments to IAS 32 – *Classification of Rights Issues*
- Disclosure of the accumulated benefit obligation for post-employment benefits

5. Invitation to Comment on IASB Pronouncements

- (i) IASB ED of *Proposed Amendments to IAS 32 – Classification of Rights Issues*

The Institute has issued an **Invitation to Comment** on IASB ED of *Proposed Amendments to IAS 32 – Classification of Rights Issues*, with comments requested by 28 August 2009.

The ED seeks to clarify the accounting treatment when rights issues are denominated in a currency other than the functional currency of the issuer. Current practice appears to require such issues to be accounted for as derivative liabilities. The proposals state that if such rights are issued pro rata to an entity's existing shareholders for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated.

- (ii) IFRIC Draft Interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments*

The Institute has issued an **Invitation to Comment** on IFRIC Draft Interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments*, with comments requested by 18 September 2009.

In the current environment, some entities are renegotiating the terms of financial liabilities with their creditors. In some circumstances, the creditor agrees to accept an entity's shares or other equity instruments to settle the financial liability fully or partially. The IFRIC was asked for guidance on how an entity should account

for such transactions in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 32 *Financial Instruments: Presentation*.

IFRIC D25 proposes that:

- the entity's equity instruments are part of any "consideration paid" to extinguish the financial liability;
- the equity instruments are measured at either their face value or the face value of the financial liability extinguished, whichever is more reliably determinable;
- any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of these equity instruments is included in the entity's profit or loss for the period.

(iii) ED of *Proposed Amendments to IAS 19 - Discount Rate for Employee Benefits*

The Institute has issued an **Invitation to Comment** on IASB ED of *Proposed Amendments to IAS 19 - Discount Rate for Employee Benefits*, with comments requested by 18 September 2009.

The ED seeks to address a problem that the global financial crisis has made increasingly significant. IAS 19 *Employee Benefits* requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds. However, when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds instead. The global financial crisis has led to a widening of the spread between yields on corporate bonds and government bonds. As a result, entities with similar employee benefit obligations may report them at very different amounts.

To address the issue expeditiously, the ED proposes to eliminate the requirement to

use yields on government bonds. Instead, entities would estimate the yield on high quality corporate bonds. If adopted, the amendments would ensure that the comparability of financial statements is maintained across jurisdictions, regardless of whether there is a deep market for high quality corporate bonds.

(iv) ED of *Proposed Improvements to IFRSs (Third Set)*

The Institute has issued an **Invitation to Comment** on IASB ED of *Proposed Improvements to IFRSs (Third Set)*, with comments requested by 16 November 2009.

The ED reflects issues discussed by the IASB in the project cycle that began last year. This is the third set of proposals under the IASB's annual improvements process which is intended to deal with non-urgent but necessary amendments to standards. The proposals range from clarification of the measurement of non-controlling interests in IFRS 3 *Business Combinations* (as revised in 2008) to changes of wording to clarify the meaning of IFRSs and remove unintended inconsistencies.

A list of the proposed 11 separate amendments addressed by the ED is set out in the Invitation to Comment.

International Meetings

6. International Accounting Standards Board

The IASB met in August 2009 and discussed the topic on discount rate for post-employment benefit obligations.

Click [here](#) to view the August IASB Update. The IASB next meets in September 2009.

7. International Financial Reporting Interpretations Committee

The IFRIC met in August 2009 and discussed the topic on extinguishing financial liabilities with equity instruments (debt for equity swap).

Click [here](#) to view the August IFRIC Update. The IFRIC next meets in November 2009.

8. International Auditing and Assurance Standards Board

The IAASB next meets in September 2009. Click [here](#) for the next meeting's details and previous meeting summary.

9. International Ethics Standards Board for Accountants

The IESBA next meets in October 2009. Click [here](#) for the next meeting's details and previous meeting summary.

Useful Resources

10. Publications

The following are publications on various topics:

- (i) Institute's staff summaries of HKFRSs:
 - [Amendments to HKFRS 1](#) *First-time Adoption of HKFRSs*
 - [Amendments to HKFRS 2](#) *Share-based Payment*
- (ii) Classification of financial instruments:
 - [Guide](#) by Grant Thornton
- (iii) Report of the Financial Crisis Advisory Group:
 - [IFRS briefing sheet](#) by KPMG
- (iv) Requirements for a third balance sheet:
 - [IFRS outlook](#) by Ernst & Young

- (v) Project on replacement of IAS 39:

- [Update](#) by BDO

- (vi) Improvements to HKFRSs 2009:

- [Financial reporting news](#) by Grant Thornton

Comment Due Dates

18 September 2009: IFRIC Draft Interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments*

18 September 2009: Exposure Draft of *Proposed Amendments to IAS 19 - Discount Rate for Employee Benefits*

30 October 2009: IASB Exposure Draft of *Rate-regulated Activities*

16 November 2009: IASB Exposure Draft of *Proposed Improvements to IFRSs (Third Set)*

8 February 2010: IASB Exposure Draft of *Management Commentary*

Specialist Practices, Business Members, and Advocacy

New!

11. HKEx Consultation on Acceptance of Mainland Standards and Audit Firms

Hong Kong Exchanges and Clearing Limited (“HKEx”) has published a [consultation paper](#) to seek views on a proposed framework to accept the use of Mainland accounting and auditing standards by Mainland incorporated companies listed in Hong Kong, and to allow Mainland audit firms, endorsed by the Ministry of Finance and the China Securities Regulatory Commission, to audit those companies, for the purposes of the Listing Rules.

The proposed framework provides for cooperation between the regulatory authorities in Hong Kong and the Mainland in investigation and regulation of the endorsed audit firms. It is further proposed that the related rule changes become effective 1 January 2010 and will apply to annual accounting periods beginning on or after 1 January 2010.

If the proposed framework is implemented, the Mainland would operate a parallel scheme as a reciprocal arrangement.

The consultation closes on 23 October 2009. To submit views to the Institute on the consultation paper, please e-mail, under heading “Mainland auditors, accounting and auditing standards”, to commentletters@hkicpa.org.hk, no later than **5 October 2009**.

Corporate Finance

12. Institute Comments on HKEx Consultations

- (i) Certified Emission Reduction (“CER”) Futures

As reported in [TechWatch No. 81](#), HKEx issued a consultation paper to seek views

on the business feasibility of developing an emissions trading platform in Hong Kong and CER futures as a product concept.

The findings of a study conducted by the HKEx on carbon, feedback from market players in Hong Kong, Singapore, Australia and the United Kingdom regarding their trading needs, and other considerations, suggest that at the present time there is limited scope for Hong Kong to develop a commercially viable CER trading platform.

Notwithstanding the above, in the [submission](#), the Institute suggests the HKEx to remain open on this issue in the longer term. If there are indications of significant developments occurring in CER trading in Asia in the future, in particular greater potential for a secondary trading market, HKEx should be prepared to review its position.

- (ii) Proposed Changes to Filing and Checklist Requirements for Listing of Equity Securities

As reported in [TechWatch No. 82](#), HKEx issued a consultation paper to seek comments on proposals to streamline the filing requirements for initial public offerings listing of additional equity securities by listed issuers.

In the [submission](#), the Institute supports, in principle, the proposed changes to streamline and clarify the filing procedures for the listing of equity securities, and to remove requirements for filing unnecessary documents, except for the proposal to require a listing applicant to file a profit forecast as a supporting document for a working capital sufficiency statement.

Given that a profit forecast memorandum and working capital sufficiency statement serve different purposes and cover two different financial periods, the Institute does not see that the benefits of requiring a profit forecast to support the working capital sufficiency statement, where no profit forecast is included in the listing

document, would justify the costs. It should be sufficient for the working capital sufficiency statement to be supported by a cash flow forecast memorandum.

Taxation

13. IRD Revises DIPNs

(i) DIPN No. 7

Section 16I of the Inland Revenue Ordinance ("IRO"), which became effective on 27 June 2008, provides for the deduction of capital expenditure incurred in relation to environmental protection machinery. **DIPN No. 7** has been updated to clarify that depreciation allowances cannot be claimed in relation to this kind of expenditure, which qualifies for a deduction under other specific provisions of the IRO.

(ii) DIPN No. 8

DIPN No. 8 has been revised to reflect the legislative amendments and court decisions concerning the treatment of business losses in recent years.

(iii) DIPN No. 30

DIPN No. 30 has been updated to reflect the change in the definition of "approved investment adviser" and "broker", which is a consequential amendment of the enactment of the Securities and Futures Ordinance.

Legislation and Other Initiatives

14. Consultations on the Deposit Protection Scheme

(i) Conclusions on Enhancing the Deposit Protection Scheme

On 18 August 2009, the Hong Kong Deposit Protection Board ("HKDPB") published a **report** on the consultation to enhance deposit protection under the Deposit Protection Scheme ("DPS"). The report summarizes the major comments

received, survey findings, and the HKDPS responses and conclusions.

In light of the general support for its recommendations (see **TechWatch Issue no. 80** for the recommendations and **Issue no. 81** for the Institute's comments), the HKDPB will proceed with the development of the legislative amendments to raise the DPS protection limit to HK\$500,000, extend the DPS coverage to secured deposits and effect corresponding changes to the priority claims for depositors under the Companies Ordinance.

The HKDPS intends to submit legislative proposals to the Legislative Council in the first quarter of 2010.

(ii) Consultation on Strengthening the Operation of the DPS

In tandem with the consultation report on enhancing deposit protection (see (i) above), the HKDPB has published another **consultation paper** on strengthening the operation of the DPS by improving its payout efficiency and the transparency of its coverage. Key recommendations include:

- simplifying the processes for calculating accrued interests on deposits and liabilities, and value of annuities, or future or contingent liabilities with a complex calculation methodology to speed up the determination and payment of compensation; and
- strengthening the disclosure requirements for non-protected deposits, introducing positive disclosures and making disclosures more legible, prominent, and easily identifiable by depositors.

The consultation closes on 17 October 2009. To submit views to the Institute on the consultation paper, please e-mail, under heading "Review of the DPS", to **commentletters@hkicpa.org.hk**, no later than **30 September 2009**.

Useful Resources

15. New Books in the Library

Featured titles and **new books** of high reference value for members are now available in the library.

16. Other Publications

The following articles/publications on topical issues may be of interest to members:

- (i) The August issue of **GAA Accounting**, featured simplified financial reporting, the role and responsibilities of non-executive directors in private companies and stories from other accounting institutes in leading capital markets.
- (ii) **Risk intelligent governance – A practical guide for boards** by Deloitte
- (iii) Articles for SMEs by ICAEW
 - **Quality marketing materials on a budget**
 - **Attract customers through online directories**
 - **Action list: How to train staff on a budget**
- (iv) **Adding value for finance teams** from ICAEW's *Accountancy*
- (v) **Realistic strategies** on solutions to ICT audits from the Canadian Institute of Chartered Accountants' *CA magazine*