



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 by:
Steve Ong (Editor), Selene Ho, Winnie Chan, Katherine Leung, Ben Lo

Specialist Practices, Business Members and Advocacy by:
Peter Tisman (Editor), Elena Chai, Mary Lam, Sharon Yeung

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Financial Reporting, Auditing and Ethics

New!

1. New TUE programme

A new **TUE programme** for January to March 2010 will feature important and new financial reporting topics including:

- Financial Statement Presentation
- Annual Improvements for 2008 and 2009
- Overview of HKFRS 9 *Financial Instruments*
- Consolidated and Separate Financial Statements
- Revenue Recognition and Measurement
- An overview of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- Impairment of Non-current, Non-financial Assets

Click [here](#) for enrolment details and more information on the new TUE programme.

2. HKICPA/SFC Joint Seminar on The Audit of Licensed Corporations

The Institute and Securities and Futures Commission ("SFC") will co-organize a joint seminar on The Audit of Licensed Corporations on 19 January 2010 for those practising members that perform audits of licensed corporations and associated entities of intermediaries.

This joint seminar will cover the details of PN 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries* and independent control reviews for stockbrokers.

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

3. Financial Reporting and Auditing Alert – Issue 5

The Institute issued **Financial Reporting and Auditing Alert – Issue 5** to remind practising members of guidance to good practice during the audit of licensed corporations and associated entities of intermediaries as set out in PN 820.

Members' Handbook

4. Updates No. 74 & No. 75

- (i) **Update No. 74** contains HK(IFRIC) – Int 19 *Extinguishing Financial Liabilities with Equity Instruments* and amendment to HK(IFRIC) – Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement*.

HK(IFRIC) – Int 19 clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

HK(IFRIC) – Int 19 clarifies i) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; ii) the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished; and iii) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period.

The interpretation is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted.

The amendment to HK(IFRIC) – Int 14, which is itself an interpretation of HKAS 19 *Employee Benefits*, applies in limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such entity to treat the benefit of the early payment as an asset.

The amendment has an effective date for mandatory adoption of 1 January 2011, with early adoption permitted for 2009 year-end financial statement.

- (ii) **Update No. 75** contains amendment to HK-Int 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*.

HK - Int 4 was revised in December 2009 as a consequence of amendments to HKAS 17 *Leases* made by *Improvements to HKFRSs* issued in May 2009. The amendment to HKAS 17 removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee.

Following the amendment to HKAS 17, the scope of this interpretation was expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16 *Property, Plant and Equipment*, HKAS 17 and HKAS 40 *Investment Property*.

Financial Reporting

5. HKFRS Insights on HKAS 24 (Revised) *Related Party Disclosures*

The Institute has issued a revised version of HKAS 24 *Related Party Disclosures* in November 2009 that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

The revised Standard is effective for annual periods beginning on or after 1 January 2011 and requires retrospective application, with earlier application permitted.

The current Standard requires entities to disclose in their financial statements information about transactions with related parties. In broad terms, two parties are related to each other if one party controls, or significantly influences, the other party. As such, many entities, particularly in an environment where government control is pervasive, found it problematic in practice to identify all government-related entities, and to quantify all related party transactions and balances with those entities. To address these issues, the IASB amended the Standard and the key amendments are described below:

- Partial exemption for government-related entities

Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government.

The revised Standard provides exemption to the government-related entity to disclose information that is costly to gather and of less value to the users but requires the entity to disclose:

- (i) name of the government;
- (ii) the nature of its relationship with the government;

- (iii) the nature and amount of each individually significant transaction; and
- (iv) a qualitative or quantitative indication of other transactions that are collectively, but not individually, significant.

It achieves the balance by requiring disclosure about these transactions only if they are individually or collectively significant.

➤ Revised definition of a related party

The definition of a related party in the extant version was complicated and contained a number of inconsistencies.

The amended definition requires certain entities to make additional disclosures, e.g. a subsidiary is now required to disclose transactions with an associate of its parent. An entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity.

For practical guidance, members may refer to:

- [IAS Plus Update](#) by Deloitte
- [Supplement to IFRS Outlook](#) by Ernst & Young
- [IFRS Briefing Sheet](#) by KPMG
- [HKFRS News](#) by PwC

6. Institute comments on IASB Draft Pronouncements

- (i) IASCF Discussion Document of Part 2 of the Constitution Review – *Proposals for Enhanced Public Accountability*

The Institute’s [submission](#) is generally supportive of the proposals contained in the Discussion Document.

To ensure that the projects undertaken by the IASB are considered to be significant

enough to warrant attention and are relevant to the widest range of stakeholders, it is believed that regular review and consultation on the Work Plan with the Trustees and the SAC should be an integral part of the due process. The SAC is encouraged to interact more actively with its constituents and the IASB to ensure that issues raised by each jurisdiction can be duly and properly addressed.

In respect of “fast track” procedure, it is believed that the due process should not be shorter than 30 days, as constituents may not have sufficient time to respond to proposals and provide comments. This is especially true when translating into a language other than English is required.

- (ii) IASB Exposure Draft on Proposed Amendment to IFRS 1 – *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*

The Institute’s [submission](#) indicates that it is supportive of the proposal to amend IFRS 1 *First-time Adoption of IFRS* to include transition provisions for first-time adopters consistent with the transition provisions in IFRS 7 *Financial Instruments: Disclosure* and welcome the decision that first-time adopters can enjoy the same relief as existing preparers of IFRS.

Audit & Assurance

7. AASC Minutes

This [AASC minutes](#) on 20 October 2009 covers:

- Endorsement of New Revised and Redrafted HKSA’s
- Annual Auditing Update Conference 2009
- To endorse the Exposure Draft on Practice Note on Continuing Connected Transactions
- To note HKEX Consultation Papers

- Invitation to Comment on IAASB Consultation Paper on Auditing Complex Financial Instruments

Ethics

8. Ethics Committee Minutes

This [EC minutes](#) on 14 September 2009 covers:

- Adoption of the Revised IFAC Code of Ethics for Professional Accountants
- Revision to Part D of the HKICPA Code of Ethics
- Adoption of the Code of Ethics for Reporting Accountants

International Meetings

9. International Accounting Standards Board

The IASB met on 14-18 December 2009 and discussed the following topics:

- Consolidation
- Derecognition
- Financial instruments: classification and measurement
- Financial instruments: hedge accounting
- Financial instruments with characteristics of equity
- Fair value measurement
- Conceptual framework: Phase C
- Discontinued operations
- Effective dates
- Emissions trading schemes
- Financial statement presentation

- IAS 37 – limited re-exposure comment deadline
- Insurance contracts
- Joint ventures
- Leases
- Post-employment benefits
- Revenue recognition

Click [here](#) to view the December IASB Update. The IASB next meets in January 2010.

10. International Financial Reporting Interpretations Committee

The IFRIC next meets in January 2010. Click [here](#) for the next meeting's details.

11. International Auditing and Assurance Standards Board

The IAASB next meets in March 2010. Click [here](#) for the next meeting's details and previous meeting summary.

12. International Ethics Standards Board for Accountants

The IESBA next meets in February 2010. Click [here](#) for the next meeting's details and previous meeting summary.

Useful Resources

13. Publications

The following are publications on various topics:

- (i) International convergence
 - [Point of view](#) by Ernst & Young
- (ii) Interpretation on debt for equity swap
 - [Supplement to IFRS Outlook](#) by Ernst & Young
 - [IFRS Briefing Sheet](#) by KPMG

(iii) Amendments to IFRIC 14

- [Supplement to IFRS Outlook](#) by Ernst & Young
- [IFRS Briefing Sheet](#) by KPMG

(iv) Income taxes

- [CFO Guide](#) by Grant Thornton

(v) HKFRS 9

- [HKFRS News](#) by PwC
- [Update](#) by BDO

Comment Due Dates

29 January 2010: Exposure Draft of PN 610 *Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance*

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

8 February 2010: IAASB Consultation Paper on Assurance on a Greenhouse Gas Statement

7 June 2010: IASB Exposure Draft of *Financial Instruments: Amortised Cost and Impairment*

Specialist Practices, Business Members and Advocacy

Corporate Finance

14. Institute Responds to Proposals on Connected Transaction Rules

As reported in [TechWatch No. 84](#), HKEx issued a consultation paper to seek views on proposals to address specific issues in the regulation of connected transactions under the listing rules.

The Institute is supportive of a number of the proposals in the consultation paper. However, on the broad issue of excluding from the definition of “connected person”, persons connected by virtue of their relationship with an issuer’s subsidiary, while the Institute supports a relaxation of the existing rules, it is of the view that a blanket exclusion would not be appropriate because many listed companies in Hong Kong are offshore holding companies that conduct much of their business at the subsidiary level. It is suggested that an alternative might be to consider exempting transactions with persons connected at the subsidiary level by reference to the size or value of the transactions.

The Institute is also of the view that, if the de minimis thresholds are increased, from a corporate governance perspective, it may be worthwhile to consider giving independent non-executive directors a more specific role in monitoring and approving connected transactions below the revised thresholds.

The Institute’s comments on the proposals are contained in the [submission](#).

15. Consultation on a Proposed Operational Model for Scripless Securities

On 30 December 2009, the SFC, HKEx and the Federation of Share Registrars Limited jointly issued a [consultation paper](#) on a proposed operational model to introduce a scripless securities market in Hong Kong, i.e., a market

where legal ownership in securities can be held and transferred without paper documents.

The proposed model contains the following key features:

- Investors may choose to hold their securities in scripless or paper form, in their own name or in the name of a nominee, in an account that they can control directly, or through an account controlled by their brokers, banks or custodians.
- All scripless securities will be held inside the Central Clearing and Settlement System (“CCASS”) while all paper securities will be held outside CCASS. An uncertificated sub-register will record all holdings in CCASS and a certificated sub-register will record all holdings outside CCASS.
- To the extent possible, the regime will also apply to shares and debentures of overseas companies that are listed in Hong Kong.

The consultation period will last for three months, ending on 31 March 2010. You are welcome to submit views to the Institute by emailing, under the heading “Scripless Securities”, to commentletters@hkicpa.org.hk, by 5 March 2010.

16. Consultation Conclusions on Rights Issues and Certified Emission Reduction Futures

HKEx published the following consultation conclusions in December 2009:

- (i) Proposals to expedite the process for rights issues and open offers

The **conclusions document** presents the comments received and HKEx’s responses and conclusions on the various proposals (see **TechWatch No. 82** for the proposals and **TechWatch No. 84** for the Institute’s comments).

Given that majority of the respondents supported the proposals, HKEx has decided

to implement the proposals, with some modifications, having regard to respondents’ views.

The listing rule amendments (**main board listing rules** and **GEM listing rules**) to implement the proposals will become effective on 1 February 2010.

- (ii) Proposals on certified emission reduction (“CER”) futures

The **conclusions document** presents the responses received and HKEx’s conclusions following a public consultation on the product concept of CER futures and the feasibility of developing a carbon emission trading platform in Hong Kong (see **TechWatch No. 81** for the proposals and **TechWatch No. 83** for the Institute’s comments).

HKEx noted that most respondents believed CERs should be the core carbon emission product in Asia, but there was uncertainty as to whether Hong Kong was the right place and as to the development timeframe. The number of overseas carbon market players indicating interest in a CER futures trading platform in Hong Kong did not suggest a critical mass for the development of trading liquidity.

HKEx has concluded that there is no imminent need for a CER futures market in Hong Kong. Nevertheless, as the carbon emission markets may in time become more important, it will continue to monitor the development of emission policies on the Mainland and in other markets and will consider revisiting the concept of CER futures if circumstances change.

Insolvency & Corporate Restructuring

17. ORO Invites Tenders for Taking Up of Appointments as Provisional Liquidator

The Official Receiver’s Office (“ORO”) is inviting practitioners to submit tenders for taking up of appointments as provisional liquidator under section 194(1A) of the Companies Ordinance

(Tender Ref: OR/T/2010). The deadline for submission is 12:00 noon on 1 February 2010. The tender form and other relevant documents can be obtained from the ORO at 10th Floor, Queensway Government Offices, 66 Queensway, Hong Kong or downloaded from the [ORO's website](#).

Taxation

18. Institute Submits Views on Depreciation Allowances for Plant and Machinery

The Institute issued a [submission](#) to the Legislative Council Panel on Financial Affairs, which had invited views on the effect of section 39E of the Inland Revenue Ordinance ("IRO") in respect of depreciation allowances for plant and machinery ("P&M").

The Institute called for import processors that lend P&M (in particular, moulds) to Mainland factories to be allowed to claim depreciation allowances on that P&M. If this is not legally possible due to the provisions of s39E, then appropriate amendments should be made to section 16G of the IRO (which deals with capital expenditure on the provision of a prescribed fixed asset) to enable full depreciation allowances to be claimed under that section.

Members may wish to note the background to this issue, which is reflected in a series of Legislative Council questions raised on the following dates:

- [9 December 2009](#)
- [25 November 2009](#)
- [4 November 2009](#)
- [21 October 2009](#)

19. Claiming of Tax Exemptions/Refunds for Islamic Bonds

Pending legislative amendments to develop the Islamic bond market, the government has issued [information](#) to help taxpayers apply for tax exemptions or refunds in respect of Islamic bonds or sukuk.

Legislation & Other Initiatives

20. First Phase Consultation on the Companies Bill

As part of the Companies Ordinance ("CO") rewrite exercise, the government [released](#) the first phase [consultation](#) on the draft provisions of the Companies Bill ("CB") on 17 December 2009. Besides seeking views on the draft provisions, the consultation paper has also highlighted the following issues for consultation:

- (i) whether the "headcount test" for approving a scheme of compromise or arrangement should be retained or abolished;
- (ii) whether residential addresses of directors and identification numbers of directors and company secretaries should continue to be disclosed on the public register;
- (iii) whether private companies associated with a listed or public company should be subject to more stringent regulations similar to public companies for the purposes of the provisions on fair dealings by directors; and
- (iv) whether the common law derivative action should be abolished.

This consultation will last for three months, ending on 16 March 2010. You are welcome to submit views to the Institute by emailing, under the heading "Companies Bill 1st Phase", to [<commentletters@hkicpa.org.hk>](mailto:commentletters@hkicpa.org.hk), by **20 February 2010**.

Since the start of the CO rewrite exercise in mid-2006, three public consultations have been conducted to seek views on a number of technical subjects. See TechWatch nos. [57](#), [70](#) and [73](#) for the Institute's comments on the previous consultations.

21. Companies Registry Circular on New Collection Time of Certificate of Incorporation

The Companies Registry has issued [Companies Registry External Circular No. 4/2009](#) to announce that, with effect from 14

December 2009, Certificates of Incorporation issued under the Companies Ordinance will be available for collection at 3:30 p.m. on the day of issue at the New Companies Section of the Companies Registry.

22. COMPAG Issues 2008-09 Report

The competition policy advisory group (COMPAG) has issued its **2008-09 annual report**, which includes information on:

- progress of the competition bill
- cases of alleged anti-competitive conduct

23. Combating Money Laundering/Terrorist Financing

(i) Second Consultation for Financial Sectors

Hong Kong, as a member of the **Financial Action Task Force** ("FATF") is obliged to implement the international standards on anti-money laundering/counter-terrorist financing ("AML/CFT"), known as the **40 recommendations + 9 special recommendations**. The FATF conducted a peer group evaluation of Hong Kong in 2007 and identified some deficiencies in respect of the requirements for customer due diligence ("CDD") and record keeping ("RK").

In connection with FATF's evaluation, the government is now proposing legislation on CDD and RK for financial institutions, and regulation of remittance agents and money changers. The **first consultation** in July 2009 considered the conceptual framework of the legislation. Based on the **conclusions** of the first consultation, the government launched the **second consultation** on the detailed legislative proposals.

At a later date, it is expected that legislation will be introduced on CDD and RK in respect of designated non-financial businesses and professions, which includes accountants, lawyers, and trust and company service providers.

(ii) International Updates

Members may wish to note that the following statement has been published:

- **FATF**: Draws attention to the deficiencies and/or risks of transactions involving Iran, Uzbekistan, Turkmenistan, Pakistan and São Tomé and Príncipe.

For more background information on the current law in Hong Kong relating to anti-money laundering, see the Institute's **Legal Bulletin 1**, "Requirements on anti-money laundering, anti-terrorist financing and related matters".

Useful Resources

24. New Books in the Library

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

25. Other Publications

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

- (i) Article on corporate governance by Deloitte
 - **2009 Corporate Governance Wrap-up**
- (ii) Reports/article by ICAEW
 - **Enterprise Survey Report 2009**
 - **Sustainable Business: Qualitative Growth**
 - **Q&A: Can I push staff to be healthy outside work?**
- (iii) Proposed reforms to the UK Corporate Governance Code launched by **Financial Reporting Council**.
- (iv) IRD's DIPN 21 on locality of profits
 - **Tax analysis** by Deloitte
- (v) IRD's DIPN 46 on transfer pricing guidelines
 - **Hong Kong tax news flash** by PwC