



# 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](mailto:commentletters@hkipa.org.hk) >. Click [here](#) for past issues.

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## Financial Reporting, Auditing and Ethics

**New!**

### 1. Cross-straits, Hong Kong and Macau Accounting Profession Conference 2011

The Institute will host a Cross-straits, Hong Kong and Macau Accounting Profession Conference on 4-5 September 2011 in order to enhance the development, communication and co-operation of the accounting profession.

It is expected that 400 participants from Mainland, Taiwan, Hong Kong and Macau will join the conference which is conducted in Putonghua. The conference will let fellow accountants exchange views in a relaxed atmosphere and witness the signing of a Supplemental Joint Declaration on the converged China Auditing Standards and Hong Kong Auditing Standards between the Institute and the Chinese Institute of CPAs.

The conference will cover the following topics:

- Changing economic and regulatory environment and its relationship with the accounting profession
- Accountants and professional liability reform
- Reform, modernization and globalization of CPA firms
- The change in the nature of services provided by CPA firms

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

### 2. Experience Sharing Seminar on the Implementation Problems Faced by SMPs on the Revised Code of Ethics

The HKICPA Code of Ethics for Professional Accountants ("the Code") was revised to maintain convergence with the revised Code of Ethics for Professional Accountants issued by

the IESBA in July 2009. The revised Code clarifies ethical requirements for all professional accountants and strengthens the independence requirements that apply to auditors. The revised Code was issued in June 2010 and has been effective from 1 January 2011.

The Institute has set up a Special Task Force on Adoption of Revised Code of Ethics by Small and Medium Practitioners ("SMPs") to look into implementation issues faced by SMPs.

The Institute will hold a seminar on 23 August 2011 to share and discuss the difficulties faced by SMPs when implementing the revised Code, particularly in relation to provision of taxation, company secretarial and accounting services. A better understanding of such practical issues will enable the Institute to consider how it can provide additional support to SMPs to facilitate their compliance with the revised Code.

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

### 3. Quality Assurance Forum (Re-run)

The Institute will re-run Quality Assurance Forum – Achieving high quality auditing and financial reporting on 29 August 2011. The forum will cover the following topics:

- An overview of the [Quality Assurance Report 2010](#) published by the Institute's Quality Assurance Department
- Common issues identified in the course of conducting the practice review and professional standards monitoring programmes
- Institute's support to members to improve understanding and application of professional standards and raise the quality of auditing and financial reporting
- Question and answer session

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

## Members' Handbook

### 4. Handbook Update No. 107

**Update no. 107** relates to the issuance of:

- Amendments to HKAS 1 (Revised) *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
- HKAS 19 (2011) *Employee Benefits*

The amendments to HKAS 1 (Revised) *Presentation of Financial Statements* require companies preparing financial statements in accordance with HKFRSs to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

Amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. Earlier application is permitted.

The issuance of HKAS 19 (2011) *Employee Benefits* completes improvements to the accounting requirements for pensions and other post-employment benefits and HKAS 19 (2011) makes important improvements by:

- Eliminating an option to defer the recognition of gains and losses, known as the "corridor method", improving comparability and faithfulness of presentation.
- Streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations.
- Enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of

defined benefit plans and the risks that entities are exposed to through participation in those plans.

HKAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

## Financial Reporting

### 5. FRSC Minutes

This **FRSC minutes** on 7 June 2011 covers:

- Issuance of new and revised HKFRSs
- NSS Topical Issues on IFRS 9
- IFRS Foundation Trustees Roundtable at Hong Kong
- Report on the IFRS Regional Policy Forum and AOSSG meeting
- The possible use of the IFRS reporting for HK incorporated companies
- Draft Q&As on IFRS for SME issued by the SME Implementation Group

### 6. Invitation to Comment on IASB Request for Views on Agenda Consultation 2011

The Institute has issued an **Invitation to Comment** on IASB Request for Views on Agenda Consultation 2011, with comments requested by **9 November 2011**.

Since the creation of IASB in 2001, IFRSs have increasingly become the internationally accepted financial reporting language around the world. As the number of jurisdictions applying IFRSs increases, stakeholders have identified new accounting issues for consideration by the IASB.

The consultation document deliberately asks open questions to gather views on the IASB's future work programme from all those involved in or affected by financial reporting. In particular, the IASB is seeking feedback on how it should balance the development of financial reporting

with the maintenance of IFRSs and – with consideration of time and resource constraints – those areas of financial reporting that should be given the highest priority for further improvement.

## 7. Institute Comments on IFRS Foundation Report of the Trustee's Strategy Review

The Institute made a [submission](#) to IFRS Foundation on the second consultation on IFRS Foundation Report of the Trustee's Strategy Review – IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade (Trustee Report) that addresses four strategic fronts – the IFRS Foundation's mission, governance, the standard-setting process, and financing of the IFRS Foundation.

The Institute made the following comments:

- It is important for the Trustees to clearly define the scope of its work by establishing clear boundaries of information that will be presented in "financial reporting" vis-à-vis "financial statements".
- The Monitoring Board and the Trustees should develop a joint communication on the respective responsibilities of each party as there is still a lot of confusion amongst stakeholders as to the exact roles of the Monitoring Board and the Trustees.
- The IFRS Interpretations Committee should review discussion papers and exposure drafts before they are published for public comment. Its role should also include some post implementation reviews so that they obtain direct hands on knowledge of the practical aspects and problems arising from interpreting and implementation of the standards.
- It is believed that the Trustees and the IASB must ensure that thorough field testing is a "formal" step in the standard setting process in view of its importance and this should be carried out at a very early stage before a standard or preferably an exposure draft is finalized and issued.
- The Institute believes that fundamental changes to any existing standards should not be made before these changes have been debated at the conceptual level first.
- There are occasions that the standards separately proposed by the IASB and FASB do not result in converged financial reporting standards. The Institute considers that the IASB and FASB should resolve the differences in financial reporting standards and seek more cooperation such that a single set of global accounting standards can become a reality.
- The Trustees should re-consider to introduce a higher percentage supporting vote.
- The Trustees' strategy should revisit the meaning of the key terms "material" and "true and fair view" as these are fundamental in the development of high quality accounting standards.
- In order to enhance consistency of IFRS implementation, the IASB should reconsider (i) joint effort by the IASB and FASB; (ii) timing for the review of new standards and consideration of pre-implementation review; (iii) post implementation review of other standards; and (iv) involvement of national standard-setters as part of the post-implementation reviews.
- The Trustees should re-consider the issue of the lack of linkage between the concept of realization for distribution purposes and concept of income recognition under IFRSs.
- The Institute believes the Trustees could improve the transparency of its budget setting process and disclose in reasonable detail its annual budget and how the funds will be used.

Click [here](#) to view the Institute's submission on the Trustees' first consultation.

## Audit & Assurance

### 8. AASC Minutes

This [AASC minutes](#) on 21 June 2011 mainly covers:

- AASC Work Plan 2011 – Status Report
- IAASB (i) ED on ISAE 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and proposed consequential amendments to ISAE 3402 and proposed ISAE 3410; and (ii) Consultation Paper on "Enhancing the Value of Auditor Reporting: Exploring Options for Change"
- Implication of paragraph 15 of HKSA 705 (Clarified) "Modifications to the Opinion in the Independent Auditor's Report" on company and group levels financial statements
- Annual Auditing Update Conference 2011
- Hong Kong Auditing Standard for non-government organizations

### 9. Institute Comments on IAASB Discussion Paper

The Institute made a [submission](#) to IAASB on its Discussion Paper on *the Evolving Nature of Financial Reporting: Disclosure and its Audit Implications* which highlights the recent trends in the range, volume and complexity of financial statement disclosures. The Institute provided comments from the perspective of regulators and auditors.

It is noted that from the comments received from regulators and practitioners, there is a consistent message that the issues raised by the IAASB Discussion Paper should be addressed when developing accounting standards. The issues raised are all relevant. However, answers to the questions on the issues raised may not be straightforward. The issues around disclosures are not isolated to audit implications. They are closely related, and

an integral part, of the ongoing debates on corporate reporting and auditor reporting.

It is believed that considerations on the audit implications of financial disclosures and the issue of auditability of disclosures need to be primarily addressed by the IASB but with the IAASB working closely alongside. It is important for the IAASB to work with IASB to understand the objective of disclosure requirements and what they expect. Accordingly, the Institute would recommend that the IAASB should establish a mechanism for formal and regular interaction with the IASB to ensure its views have been fully considered by the IASB when the IASB revises or develops new accounting standards.

## International Meetings

### 10. International Accounting Standards Board

The IASB met on 20-22 July 2011 and discussed the following topics:

- Agenda consultation report
- Asset and liability offsetting
- Effective dates
- ICAS/NZICA disclosure report: education session
- IFRS 9: Financial instruments: hedge accounting
- IFRS 9 – effective dates
- IFRS Interpretations Committee: update from last meeting
- Impairment
- Insurance contracts
- Leases

Click to view the IASB Update on the meeting on [20-22 July](#). The IASB next meets in September 2011.

## 11. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 7-8 July 2011 and discussed the following topics:

- Accounting for stripping costs in the production phase of a surface mine
- Use of IFRIC 6 by analogy
- IFRS Interpretation Committee agenda decisions
- IFRS Interpretations Committee tentative agenda decisions
- IFRS Interpretations Committee other issues considered
- IFRS Interpretations Committee work in progress

Click to view the IFRIC Update on the meeting on [7-8 July](#). The IASB next meets in September 2011.

## 12. International Auditing and Assurance Standards Board

The IAASB next meets in September 2011. Click [here](#) for the next meeting's details and previous meeting summary.

## 13. International Ethics Standards Board for Accountants

The IESBA next meets in October 2011. Click [here](#) for the next meeting's details and previous meeting summary.

### Useful Resources

## 14. Publications

The following are publications on various topics:

- (i) New HKFRS on consolidation, joint ventures and disclosures
  - Staff summaries of newly issued HKFRSs:

- [HKFRS 10 Consolidated Financial Statements, HKFRS 12 Disclosure of Interests in Other Entities and HKAS 27 \(2011\) Separate Financial Statements](#)
- [HKFRS 11 Joint Arrangements and HKAS 28 \(2011\) Investments in Associates and Joint Ventures](#)
- [HKFRS 13 Fair Value Measurement](#)
- [Amendments to HKAS 1 \(Revised\) Presentation of Financial Statements](#)
- [HKAS 19 \(2011\) Employee Benefits](#)

- [HKFRS financial reporting update](#) by Deloitte

(ii) Update of IFRSs:

- [IFRSs in your pocket 2011](#) by Deloitte
- [Reminder: Effective dates of IFRSs](#) by KPMG

(iii) [A guide to managing the China reverse merger fallout](#) by Ernst & Young

(iv) [2010 annual report](#) from the IFRS Foundation

### Comment Due Dates

**16 August 2011:** IFAC's IAASB Consultation Paper on Enhancing the Value of Auditor Reporting: Exploring Options for Change

**30 September 2011:** IASB ED of *Proposed Improvements to IFRSs* (Fourth set)

**9 November 2011:** IASB Request for Views on Agenda Consultation 2011

## Specialist Practices, Business Members and Advocacy

### Professional Accountants in Business

#### 15. Best Corporate Governance Disclosure Awards 2011 Invites Entries

Now in its 12<sup>th</sup> year, the **Best Corporate Governance Disclosure Awards** ("Awards") is highly regarded as a benchmark of Hong Kong's current corporate governance standards. A media briefing to launch the 2011 Awards was held on 7 July.

There are five categories for the Awards, namely Hang Seng Index ("HSI"), non-HSI (with separate categories for large companies and mid-to-small companies by market capitalization), H-share and public sector/not-for-profit organizations. A new award is introduced this year to recognize excellence in sustainability and social responsibility reporting.

Take this opportunity to show support for good corporate governance by encouraging your organization to participate in the Awards. The deadline for entry is 18 August 2011.

Click for the [press release](#) and the [entry form](#).

### Corporate Finance

#### 16. T+2 Finality for Hong Kong Securities Market

Hong Kong Exchanges and Clearing ("HKEx") has introduced a **T+2 Finality arrangement** for money settlement in the Central Clearing and Settlement System ("CCASS") for the Hong Kong securities market, as from 25 July 2011. Under T+2 Finality, securities and money settlement is completed and finalized on T+2 (i.e., two business days after the trade). The arrangement is supported by a new interbank bulk settlement run in the evening of T+2 by Hong Kong Interbank Clearing Limited.

This new arrangement reduces the overnight credit risk of the securities market and aligns the money settlement arrangement in Hong Kong with international best practice, by bringing finality of securities and money settlement on the same day.

#### 17. October Implementation for Conflicts of Interest Requirements for Pre-deal Research Reports

The Securities and Futures Commission ("SFC") has **announced** that the implementation date for expanding the scope of the conflict of interest requirements governing research reports (details reported in **Techwatch no.105** (item 16)) will be deferred to 31 October 2011. This is in response to market practitioners' requests for more time to establish the necessary systems and training, as well as complementary measures across the market to cater for situations involving a number of practitioners in an initial public offering.

### Taxation

#### 18. Stamp Office Interpretation and Practice Notes No.5

**Stamp Office Interpretation and Practice Notes no.5** sets out the requirements and practices in relation to Special Stamp Duty.

#### 19. Tax Treatment for Defined Benefit Retirement Schemes

The Inland Revenue Department ("IRD") has issued an **announcement** about the tax treatment for defined benefit retirement schemes.

Following a review of the tax treatment explained in paragraphs 49 to 52 of Departmental Interpretation and Practice Notes no. 23 ("DIPN 23"), it has been concluded that the net total is not a provision for payment of contributions to the scheme and is prohibited from deduction under section 17(1)(j) of the Inland Revenue Ordinance. As a result, the IRD will now adopt the following assessing practice:

- (i) any component forming part of the net total recognized in the profit and loss account or statement of comprehensive income is not deductible or assessable;
- (ii) the ordinary annual contributions paid are allowable under section 16(1) subject to the 15% limitation prescribed in section 17(1)(h); and
- (iii) the special contributions paid are deductible in accordance with section 16A at the rate of 20% in each of the years starting from the year of payment.

Notwithstanding this revised assessing practice, assessments made according to the old practice cannot be reopened if they have become final and conclusive. If any entity feels aggrieved by the change of the assessing practice, they can write to the assessor. More details are in the announcement.

## 20. Applications for Certificate of Resident Status for Double Taxation Agreements

With immediate effect, any application for a certificate of Hong Kong resident status under a comprehensive agreement for the avoidance of double taxation signed between Hong Kong and other jurisdictions (apart from the Mainland of China) has to be made on the standard form IR1313B (for company, partnership, trust or other body of persons) or IR1314B (for individuals).

For applications involving the Mainland of China, standard form IR1313, IR1313A, IR1314 and IR1314A should continue to be used.

The forms can be downloaded from the [IRD's homepage](#).

## Legislation & Other Initiatives

### 21. Companies Registry Update

- (i) Companies Registry ("CR") has issued [CR external circular no. 5/2011](#) to remind the public that the Securities and Futures and Companies Legislation (Structured Products Amendment) Ordinance 2011 (the

"Amendment Ordinance") was gazetted and took effect on 13 May 2011.

The Amendment Ordinance transfers the regulation of public offers of structured products in the form of shares or debentures from the prospectus regime of the Companies Ordinance ("CO") to the offers of investments regime under the Securities and Futures Ordinance. However, the CO requirements, other than the prospectus provisions, in relation to shares or debentures (e.g., the requirement for a register of members/debenture holders) will continue to apply to Hong Kong incorporated companies.

- (ii) CR has published:
  - [statistics for the first half of 2011](#)
  - information pamphlet on [commemorative records of registration](#)

### 22. Latest Notices on AML/CFT

Members may wish to note that the following ordinance and notices in relation to combating money laundering/terrorist financing:

- [The Anti-Money Laundering and Counter-Terrorist Financing \(Financial Institutions\) Ordinance](#): This ordinance introduces requirements relating to customer due diligence and record-keeping by specified financial institutions, and powers for the relevant authorities to supervise compliance with the requirements. It will come into effect on 1 April 2012.
- [Government notice 4265](#): Updated list of terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- [Government notice 4429](#): A list of relevant persons specified under the United Nations Sanctions (Côte d'Ivoire) (No. 2) Regulation 2011. The regulation was made under the United Nations Sanctions Ordinance that



was published as **legal notice 113 of 2011** in the gazette.

- **Government notice 4430**: A list of relevant persons and entities specified under the United Nations Sanctions (Libya) Regulation 2011. The regulation was made under the United Nations Sanctions Ordinance and published as **legal notice 114 of 2011** in the gazette.
- **US executive order 13224**: The list relating to “Blocking property and prohibiting transactions with persons who commit, threaten to commit or support terrorism”.

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

### 23. Library Resources

**Featured titles** and **new books** of high reference value for members are now available. In addition, members can **login** to the **e-Library** and access e-journals and e-books on a wide range of business subjects.

### 24. Other Publications

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

(i) HKEx published:

- **Report** on initial public offering ("IPO") applications, delisting and suspensions as at 29 July 2011
- **Status report** on new product and market development initiatives as of 15 July 2011
- July 2011 issue of **Exchange**, the Exchange's quarterly newsletter

➤ four listing decisions in relation to:

- whether the interim guidance on pre-IPO investments applied to an issue of shares upon exercise of warrants, which formed an integral part of a loan agreement between the warrant holder and a listing applicant seeking a listing on HKEx (**LD15-2011**)
- whether HKEx would waive certain connected transaction requirements for the possible issue of new A shares by a Mainland listed issuer to its connected persons, under a proposed public offer in the Mainland (**LD 16-2011**)
- whether the proposed listing of a listed issuer's subsidiary on the main board (the shares of the subsidiary are listed on an overseas stock exchange) would be a “spin-off” by the listed issuer (**LD17-2011**)
- for the proposed share option scheme of a listed issuer's subsidiary, which is applying for a listing, to be effective after listing, whether HKEx would grant a waiver to allow the “10 per cent limit” be calculated based on the subsidiary’s total number of shares in issue at the time of its new listing, instead of the date of the listed issuer's general meeting to approve the scheme (**LD18-2011**)

(ii) SFC published:

- July 2011 issue of **InvestEd Intelligence** which provides pointers for investing in IPOs and other listings that are new to local investors in terms of their domicile, form of the security, listing method, etc. It also discusses the importance, and enhancement in monitoring, of short- selling activities.

- Issue no.17 of **Takeovers Bulletin** that highlights revisions to Practice Notes 1 and 15, rulings of the Takeovers Panel and updates on the activities of the Takeovers Team.
  - **Fund management activities survey 2010** that **shows** that fund management business continued to grow in 2010, and the population of intermediaries engaging in asset management business also expanded.
  - 2011 edition of **How to read products key facts statements** booklet
- (iii) Articles on corporate governance by Deloitte:
- **Corporate governance trends – looking back as we move forward**
  - **SEC staff publishes observations on interactive data (XBRL) submissions**
  - **Asia Pacific economic outlook: China, India, the Philippines, Singapore, South Korea**