



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

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## Financial Reporting, Auditing and Ethics

### New!

#### 1. Seminar on ED of PN 740 “Auditor’s letter on Continuing Connected Transactions under the Hong Kong Listing Rules”

The Institute will hold a seminar on 24 November 2009 for auditors and those responsible for preparing Hong Kong listed issuers’ financial statements and annual reports, including those responsible for listed issuers’ financial oversight. The seminar will explain the key matters covered in the Exposure Draft (“ED”) of Practice Note (“PN”) 740, in particular the implications for auditors, and key impacts that the PN 740 may have for Hong Kong listed issuers.

Details of the ED of PN 740 are set out in the “Audit & Assurance” section below.

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

#### 2. HKICPA/IASB Roundtable Discussions on ED on Fair Value Measurement

On 15 October 2009, the HKICPA/IASB held roundtable discussions in Hong Kong on the ED on *Fair Value Measurement*. President of the Institute, Paul Winkelmann, chaired the roundtable discussions with IASB Board member, Zhang Wei-Guo and IASB director of International Activities, Wayne Upton. More than 50 representatives from firms, corporates and financial institutions participated in the roundtable discussions. The meeting gave participants an opportunity to meet the IASB face-to-face to discuss current developments and future directions of the IASB on fair value measurement.

The Institute has submitted comments on the ED on *Fair Value Measurement*, which are summarised in the “Financial Reporting” section below.

### Members’ Handbook

#### 3. Updates No. 70 & No. 71

- (i) **Update No. 70** contains amendment to HKAS 32 *Financial Instruments: Presentation* – Classification of Rights Issues, which addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. It requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. Previously such rights issues were accounted for as derivative liabilities.
- (ii) **Update No. 71** contains 3 *Hong Kong Clarified Pronouncements on Auditing* to improve understandability of the auditing standards, including:
  - HKSA 800 (Clarified) “Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks”
  - HKSA 805 (Clarified) “Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”
  - HKSA 810 (Clarified) “Engagements to Report on Summary Financial Statements”

### Financial Reporting

#### 4. HKFRS Insights on the third statement of financial position

HKAS 1 (Revised) *Presentation of Financial Statements* is effective for annual periods beginning on or after 1 January 2009. It requires an entity to present an additional statement of financial position and related notes as at the beginning of the earliest comparative period as part of a complete set of financial statements, if

the entity (i) applies an accounting policy retrospectively; (ii) makes a retrospective restatement of items in its financial statements; or (iii) reclassifies items in its financial statements.

This additional statement of financial position would provide a basis for financial statement users to evaluate information about the entity's performance during the period where there has been a change in comparative information.

In determining the presentation of the third statement of financial position, management needs to exercise their professional judgement based on the particular facts and circumstances to decide whether retrospective restatement or reclassification of items may have material effects on the comparative amounts in the statement of financial position.

For practical guidance and illustrative presentation of three statements of financial position, members may refer to:

- **IFRS outlook** and **Illustrative financial statements** by Ernst & Young
- **Illustrative financial statements** by KPMG
- **IFRSs model financial statements** by Deloitte

## 5. FRSC Minutes

This **FRSC minutes** on 24 September 2009 covers:

- Guidance on the application of Amendments to IAS 17 *Leases* in the Annual Improvements to IFRS 2009
- Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the HK Companies Ordinance
- Consideration of IASB Discussion Documents

- Report on the National Standard Setters Meeting and the World Standard Setters Meeting
- Submissions on various IASB Discussion Documents
- Roundtable on the Constitution Review Part 2 in Tokyo
- IFRS for SMEs
- Report on IASB Financial Instruments Roundtable

## 6. Institute Comments on IASB ED on *Fair Value Measurement*

The Institute's **submission** is supportive of the proposed fair value measurement framework described in the ED.

The Institute agrees with the ED's definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). In the absence of an actual transaction at the measurement date, fair value measurement should assume a hypothetical transaction in the most advantageous market for the asset or liability. In addition, it is believed that, at initial recognition, if the transaction price differs from its fair value, such difference should be recognised in the profit or loss unless an IFRS requires some other treatment.

Nevertheless, the Institute has concern on taking into account non-performance risk in measuring all liabilities.

## Audit & Assurance

## 7. AASC Minutes

This **AASC minutes** on 28 July 2009 covers:

- Endorsement of New Revised and Redrafted HKSAs

- Annual Auditing Update Conference 2009
- Progress report on proposed amendments by the Law Society
- To consider the draft PN 740

## 8. Invitation to Comment on IAASB Consultation Papers

- (i) Consultation on Auditing Complex Financial Instruments

The Institute has issued an **Invitation to Comment** on IAASB Consultation Paper on Auditing Complex Financial Instruments, with comments requested by 4 January 2010.

The purpose of this consultation paper is to seek views on a number of matters that require consideration in relation to the IAASB's plans to develop guidance relating to auditing complex financial instruments by revising its extant International Auditing Practice Statement ("IAPS") 1012, "Auditing Derivative Financial Instruments".

The IAASB believes that the work that has recently been completed by the UK Auditing Practices Board ("APB") on its PN 23 (Revised), "Auditing Complex Financial Instruments", can be leveraged and intends to use the Interim Guidance that has been issued by the APB in its entirety as a starting point in revising IAPS 1012. The AASC will consider to adopt the revised IAPS 1012 and replace existing PN 1012 "Auditing Derivative Financial Instruments".

- (ii) Consultation on Assurance on a Greenhouse Gas Statement

The Institute has issued an **Invitation to Comment** on IAASB Consultation Paper on Assurance on a Greenhouse Gas ("GHG") Statement, with comments requested by 8 February 2010.

With the increasing attention given to the link between GHGs and climate change, many entities are quantifying their GHG emissions for internal management purposes, and an increasing number are also preparing a GHG statement for regulators, legislators, investors or other interested parties. The IAASB's project seeks to enhance the consistency and quality of performance by practitioners on assurance engagements to report this information.

A working draft of an International Standard on Assurance Engagements developed by the IAASB's GHG Task Force is not an exposure draft. It will continue to be modified in light of comments received on this consultation paper, and will be considered for issue by the IAASB as an ED in 2010.

## 9. Invitation to Comment on ED of PN 740

The Institute has issued an **Invitation to Comment** on ED of PN 740 "Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules", with comments requested by 31 December 2009.

The purpose of the PN 740 is to provide guidance to auditors as to their responsibilities and procedures when an auditor is engaged by a Hong Kong listed issuer to report on continuing connected transactions pursuant to Chapter 14A of the Main Board Listing Rules or Chapter 20 of the GEM Listing Rules issued by The Stock Exchange of Hong Kong Limited ("SEHK").

The PN 740 covers:

- the significant issues commonly encountered by the auditor when undertaking the engagement;
- the principal matters which should be taken into consideration by the auditor when designing, carrying out, and evaluating the outcome of, his procedures;

- the role of the auditor; and
- the scope of work done by auditors.

This PN 740 has been prepared in consultation with SEHK. This ED is issued separately from the Consultation Paper on Proposed Changes to the Connected Transaction Rules issued by the Hong Kong Exchanges and Clearing Limited on 2 October 2009.

## International Meetings

### 10. International Accounting Standards Board

The IASB met on 29 September, 6 October and 15–16 October 2009 (additional meetings) and 19–23 October 2009, and discussed the following topics:

- Consolidation
- Credit risk in liability
- Derecognition
- Fair value measurement
- Financial instruments
- Financial statement presentation
- Insurance contracts
- Liabilities: amendments to IAS 37
- Other comprehensive income
- Post-employment benefits
- Consolidation
- Fair value measurement
- Financial instruments
- Discontinued operations
- Financial instruments with characteristics of equity
- Financial statement presentation
- Income tax
- Insurance contracts
- Leases
- Revenue recognition
- Statement of comprehensive income

Click [here](#) for details of the IASB Update on the joint meeting.

### 11. International Financial Reporting Interpretations Committee

The IFRIC next meets in November 2009. Click [here](#) for the next meeting's details.

### 12. International Auditing and Assurance Standards Board

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

### 13. 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.

Click to view the IASB Update on the meetings on [29 September](#); [6 October](#); [15–16 October](#) and [19–23 October](#). The IASB next meets in November 2009.

In addition, the IASB held a joint meeting with the US Financial Accounting Standards Board on 26-28 October 2009 and discussed the following topics:

## Useful Resources

### 14. Publications

The following are publications on various topics:

(i) Classification of rights issues:

- [IAS plus update](#) by Deloitte
- [Supplement to IFRS outlook](#) by Ernst & Young
- [IFRS briefing sheet](#) by KPMG

(ii) National standard-setters meeting report:

- Meeting in [September 2009](#)

(iii) New tools to support clarified ISAs:

- [ISA modules](#) by IAASB

(iv) IFRS model materials:

- [Illustrative financial statements, presentation and disclosure checklist](#) by Deloitte
- [Compliance questionnaire](#) by Deloitte
- [Disclosure checklist](#) by Ernst & Young
- [Illustrative financial statements](#) by Ernst & Young
- [Illustrative financial statements](#) by PwC
- [Disclosure checklist](#) by PwC
- [Illustrative disclosures and guidance on IFRS 7](#) by Grant Thornton

(v) HKFRSs/IFRSs update:

- [Guide](#) by BDO
- [Update](#) by BDO
- [Update](#) by Ernst & Young

(vi) Messages from the G20 summit:

- [EY overview](#) by Ernst & Young
- [IFRS briefing sheet](#) by KPMG

(vii) Project on replacement of IAS 39:

- [IFRS outlook](#) by Ernst & Young
- [Update](#) by Deloitte

(viii) Amendments to IFRS 7 and impairment:

- [HKFRS news](#) by PwC

(ix) Accounting for investment properties under construction:

- [Practical guide](#) by Deloitte

(x) Improvements to HKFRSs:

- [Update](#) by BDO

(xi) Interim guidance on auditing complex financial instruments:

- [Updated Practice Note](#) by Auditing Practices Board of UK

(xii) Institute's questions and answers:

- [Solicitors' accounts rules and PN 840 Reporting Engagements](#)

## Comment Due Dates

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

**16 November 2009:** IASCF Discussion Document of *Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability*

**31 December 2009:** ED of PN 740 “Auditor’s letter on Continuing Connected Transactions under the Hong Kong Listing Rules”

**4 January 2010:** IAASB Consultation Paper on Auditing Complex Financial Instruments

**8 February 2010:** IASB ED of *Management Commentary*

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

## Specialist Practices, Business Members and Advocacy

### Restructuring and Insolvency

#### 15. Consultation on Corporate Rescue Proposals

As part of the response to the recent global financial crisis, the Hong Kong SAR Government is consulting on the introduction of a corporate rescue procedure, based on the 2001 proposals for “provisional supervision”.

A consultation document on [Review of Corporate Rescue Procedure Legislative Proposals](#) was released on 29 October 2009. The legislative proposals aim to provide a statutory “grace period” for companies with long-term viability but which face short-term financial difficulty, so that they can restructure their business or debts, or seek a capital injection to turn themselves around.

The consultation period will last for three months, ending on 28 January 2010, and the proposals will be reviewed by the Restructuring and Insolvency Faculty (RIF) of the Institute. To submit views to the RIF, please email, under the heading “Corporate Rescue Proposals”, to [rif@hkipa.org.hk](mailto:rif@hkipa.org.hk) by **18 December 2009**.

### Taxation

#### 16. LegCo Question on Depreciation Allowances for Machinery & Plant Used in the Mainland

A question was raised recently at the Legislative Council in relation to section 39E of the Inland Revenue Ordinance, which covers allowances for capital expenditure on leased machinery and plant (“M&P”), and the implications of the Inland Revenue Department’s Departmental Interpretation and Practice Notes No.15 for M&P used in Mainland processing operations. Click [here](#) for the question and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan.

## 17. Call for Agenda Items for 2009 Annual Meeting with Inland Revenue Department

The next regular annual meeting between the Institute and Commissioner of Inland Revenue will be held in February 2010 to discuss matters of common interest or concern in relation to tax practice and procedure.

If you wish to suggest agenda items, please use this [form](#) to provide a brief and clear explanation of the issue, and return the form to the Institute via fax (2865-6603) or e-mail <[elena@hkicpa.org.hk](mailto:elena@hkicpa.org.hk)> by **27 November 2009**.

Agenda items focus on matters of general concern, rather than specific cases, unless cases are indicative of wider issues. Agenda items discussed in the [2009 annual meeting](#) are contained in the minutes of that meeting.

## 18. Inland Revenue (Amendment) (No.3) Bill Exchange of Information in Double Tax Agreements

As previously reported in TechWatch [Issue 84](#), the Institute's submission on the above bill suggested that more detailed information be made available about the safeguards that would apply when the Inland Revenue Department ("IRD") responded to requests from overseas tax authorities for exchange of tax information. The government has now provided the bills committee with [further information](#) including an outline of safeguards to be contained within individual comprehensive double tax agreements ("CDTAs"), those to be included in subsidiary legislation, and procedures to be followed by the IRD, which will be incorporated in Departmental Interpretation and Practice Notes.

In a [submission](#) commenting on the additional information, the Institute has called for some of the safeguards to be given stronger legal backing, particularly since the terms of individual CDTAs double tax agreement are subject to negotiation.

## Professional Accountants in Business

### 19. IFAC Professional Accountants in Business Committee (PAIBC) Meeting

The IFAC PAIBC met in New York on 7-9 October. The meeting discussed the findings of an IFAC Board review of service delivery to PAIBs, including proposed major objectives (i) to raise awareness of the important role played by PAIBs in sustainable value creation and value reporting and (ii) to support member bodies in enhancing the competencies of their PAIB members through the communication and sharing of good practice and ideas.

In the context of these objectives, the committee discussed the strategic direction for its own work and the progress/priority of specific ongoing and possible projects, including international good practice guidance on internal controls, and on estimating and using the cost of capital for project (investment) appraisal, an interview-based study on external business reporting and further work on sustainability. The potential for collaborations and sourcing outside expertise were also considered.

## Legislation & Other Initiatives

### 20. Consultation on Review of the Trustee Ordinance

In a [submission](#) on the government's consultation on the above subject, the Institute supported a number of the technical changes proposed, which were outlined previously in TechWatch [Issue 81](#).

## Useful Resources

### 21. Companies Registry News

- (i) The Companies Registry Trading Fund has released its [2008-09 annual report](#). Major achievements and developments during the year are highlighted in a [press release](#).
- (ii) The Registry has also issued its [Environmental Report 2008](#).



## 22. New Books in the Library

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

## 23. Other Publications

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

- (i) Anti-money laundering
  - **Money laundering awareness handbook for tax examiners and tax auditors** by OECD
- (ii) Article on corporate governance by Deloitte
  - **What might companies do about the risk elephant in the room?**
- (iii) Publication by OECD (Organisation for Economic Co-operation and Development)
  - **The Financial Crisis-Reform and Exit Strategies**
- (iv) Report/article by ICAEW
  - **The state of the economy report, October 2009**
  - **Finance's role in the organisation**