



# 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* 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. Annual Accounting Update 2009

The Institute will hold an annual accounting update on 24 October 2009 for members working in the field of accounting or with an interest in accounting. The accounting conference will cover the following topics:

- Amendments to HKFRS 7 – *Improving Disclosures about Financial Instruments*
- Annual Improvements Project 2008 and 2009
- HKAS 1 Revised – *Presentation of Financial Statements*
- IFRS for SMEs

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

#### 2. HKICPA/IASB Roundtable Discussions on IAS 39 Replacement Projects

On 2 September 2009, the HKICPA/IASB held roundtable discussions in Hong Kong on the recently issued Exposure Draft (“ED”) of IAS 39 *Financial Instruments: Classification and Measurement*, which attracted more than 65 representatives from firms, corporates and financial institutions to attend. The meeting gave preparers an opportunity to discuss and express their views about the latest developments and directions of the IASB on IAS 39 replacement projects.

Click [here](#) for the IASB presentation. Comments from the discussions were incorporated into the Institute’s [submission](#) dated 14 September 2009.

### Members’ Handbook

#### 3. Handbook Update No. 69

**Update No. 69** contains eight Hong Kong Clarified Pronouncements on Auditing to improve understandability of the auditing standards, including:

- Glossary of Terms Relating to Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (Clarified)
- HKSA 510 (Clarified) *Initial Audit Engagements – Opening Balances*
- HKSA 600 (Clarified) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*
- HKSA 700 (Clarified) *Forming an Opinion and Reporting on Financial Statements*
- HKSA 705 (Clarified) *Modifications to the Opinion in the Independent Auditor’s Report*
- HKSA 706 (Clarified) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*
- HKSA 710 (Clarified) *Comparative Information – Corresponding Figures and Comparative Financial Statements*
- HKSA 720 (Clarified) *The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

### Financial Reporting

#### 4. HKFRS Insights on HKFRS 8 *Operating Segments*

HKFRS 8 *Operating Segments* shall apply to the financial statements of an entity whose debt or equity instruments are traded in a public market, or that files, or is in the process of filing,

its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

HKFRS 8 is effective for annual periods beginning on or after 1 January 2009. It replaces HKAS 14 *Segment Reporting* and the main changes from HKAS 14 are described below.

#### Identification of segments

- HKFRS 8 adopts a management approach to identify operating segments and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker ("CODM") in order to allocate resources to the segment and to assess its performance.

HKAS 14 required identification of two sets of segments – one based on related products and services, and the other on geographical areas. One set of segments was identified as primary segment and the other as secondary segment.

- A component of an entity that sells primarily or exclusively to other operating segments of the entity is included in HKFRS 8's definition of an operating segment if the entity is managed that way.

HKAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers and therefore did not require the different stages of vertically integrated operations to be identified as separate segments.

#### Measurement of segment information

- HKFRS 8 requires the reported information based on information that the CODM uses to make decisions about operating matters.

HKAS 14 required reported segment information based on the financial information presented in the consolidated financial statements.

#### Disclosure

HKFRS 8 requires an entity to disclose the following information:

- factors used to identify the entity's reportable segments, including how the entity identified its operating segments, and types of products and services from which each reportable segment derives its revenues;
- reconciliations of total reportable segment revenues, total profit or loss, total assets, total liabilities and other material/segment items disclosed to corresponding totals in the entity's financial statements; and
- information for the entity as a whole about its products and services, geographical areas, and major customers, if the information is not included as part of the disclosures about segments.

For practical guidance, members may refer to:

- [IAS Plus](#) by Deloitte
- [IFRS briefing sheet](#) by KPMG
- [Practical guide](#) by PwC
- [Implementation guidance](#) by Ernst & Young

## 5. Invitation to Comment on IASCF Discussion Document

The Institute has issued an [Invitation to Comment](#) on International Accounting Standards Committee Foundation ("IASCF") Discussion Document of *Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability*, with comments requested by 16 November 2009.

The objectives of the proposals are to enhance further the governance of the organisation, improve the involvement of stakeholders with a broad range of perspectives in both developed and emerging markets, and make operational improvements. The key proposals seek to:

- enhance the IASB agenda-setting processes;
- expand the IASB's liaison with other organisations;
- establish a procedure for the possibility of an accelerated due process;
- provide further geographical balance among the Trustees; and
- change the name of the organisation to the IFRS Foundation to provide clarity regarding the Foundation's mission.

## 6. Institute Comments on IASB Exposure Draft of *Financial Instruments: Classification and Measurement*

The Institute's **submission** is supportive of a mixed measurement model, which should be retained as it is agreed that some instruments are best measured at amortised cost, in accordance with the way that the business is managed, and others that should be measured at fair value.

However, the Institute has the following concerns:

- The principles underpinning the criteria for determining amortised cost measurement in the ED are not defined with sufficient clarity to produce consistent application in practice. Also, the examples of instruments ineligible for amortised cost measurement regarding subordinated interests and assets acquired at a discount that reflects incurred credit losses are not consistent with the underlying principles.
- The reclassification of financial instruments after initial recognition should be permitted in the circumstance of a change in business model with adequate disclosure by the entity giving reasons for the change.

- The IASB should retain a reliability-based exemption as provided under current IAS 39 by allowing certain unquoted equity investments (and all derivatives on such instruments) to be stated at a cost-based measurement.
- The inclusion of dividend income in other comprehensive income will result in an accounting mismatch if the investment is funded by debt financing on which the related interest expense would be charged against profit or loss.

## International Meetings

### 7. International Accounting Standards Board

The IASB met on 14 - 18 September 2009 and 22 September 2009 (additional meeting) and discussed the following topics:

- The financial crisis
- Conceptual framework
- Financial instruments with characteristics of equity
- Financial statement presentation
- Insurance contracts
- Leases
- Liabilities: Amendments to IAS 37
- Post-employment benefits
- Related party disclosures
- Revenue recognition
- Financial instruments: replacement of IAS 39

Click to view the IASB Update on the meetings on [14 – 18 September](#) and [22 September](#). The IASB next meets in October 2009.

## 8. International Financial Reporting Interpretations Committee

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

## 9. 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.

## 10. International Ethics Standards Board for Accountants

The IESBA issued a revised *Code of Ethics for Professional Accountants* ("the Code") in July 2009, following the approval and consideration of due process by the Public Interest Oversight Board. The Code becomes effective on 1 January 2011.

Click [here](#) to view the materials, including powerpoint presentation, overview of independence requirements and comparisons, prepared by the IESBA staff to support implementation of the Code.

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

### Useful Resources

## 11. Publications

The following are publications on various topics:

- (i) IFRS for SMEs:
  - Summary by [South African Institute of Chartered Accountants](#) and [BDO](#)
  - Comparison by [KPMG](#) and [PwC](#)
- (ii) Accounting for investment properties under construction:
  - Guide by [PwC](#) and [Ernst and Young](#)
- (iii) Capitalisation of borrowing costs:
  - [IFRS outlook](#) by Ernst & Young
- (iv) Business combinations and non-controlling interests:
  - [Guide](#) by PwC
- (v) Amendments to HKFRS 1 *Additional Exemptions for First-time Adopters* and HKFRS 2 *Group Cash-settled Share-based Payment Transactions*:
  - [Update](#) by BDO
  - [Financial reporting update](#) by KPMG
- (vi) Project on replacement of IAS 39:
  - [First impressions](#) by KPMG
- (vii) Proposed IFRS 1 improvement to accept revaluation as deemed cost:
  - [HKFRS news](#) by PwC
- (viii) Recognition of unused tax losses as assets in accordance with IAS 12:
  - [Spotlight](#) by Ernst & Young
- (ix) Accounting for extractive activities:
  - [HKFRSs/IFRSs update](#) by BDO
- (x) IFRS reminder for interim and annual periods ending 30 September 2009:
  - [IFRS briefing sheet](#) by KPMG
- (xi) IASB response to G20 recommendations:
  - [Summary](#) by IASB
- (xii) IFRS enforcement decisions:
  - [Extracts](#) by Committee of European Securities Regulators

## Comment Due Dates

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

**16 November 2009:** IASB Exposure Draft 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*

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

## Specialist Practices, Business Members and Advocacy

### Corporate Finance

#### 12. Update on HKEx Consultations and Conclusions

- (i) Proposed new listing rules for mineral and exploration companies

This **consultation paper** seeks views on proposals to strengthen Hong Kong's role as an important listing centre for mineral and exploration companies ("M&E companies") and to update Hong Kong's regulatory framework for such listed companies.

The proposals include:

- revised eligibility requirements for M&E companies applying for a new listing;
- specific continuing disclosure obligations for listed M&E companies;
- specific disclosure requirements for listed companies entering into major transactions involving M&E assets; and
- the requirement for listed companies to update previously published statements on reserves and resources, if any, on an annual basis.

The consultation closes on 11 November 2009. To submit views to the Institute, please e-mail, under heading "M&E companies", to [commentletters@hkipa.org.hk](mailto:commentletters@hkipa.org.hk), no later than **27 October 2009**.

- (ii) Proposed changes to requirements for circulars and listing documents

This **consultation paper** seeks views on proposals to streamline requirements for listed issuers' circulars and listing documents and codify the Stock Exchange's

existing practices in applying the listing rules, so as to make these documents more relevant for shareholders and encourage timely dispatch.

The proposals include:

- modification of the financial disclosure requirements for very substantial disposals and for the target of a major acquisition or above;
- allowing issuers to refer to already published information instead of reproducing the same in the documents;
- for listed Mainland and overseas issuers, removing requirements to disclose (and make available for inspection) provisions of constitutive documents and regulatory provisions in the jurisdiction of incorporation;
- requiring disclosure of information contained in board minutes for connected transactions;
- requiring disclosure of the expected dispatch date of the circular and update shareholders of changes; and
- modifying the directors' responsibility statement on the content of the documents.

The consultation closes on 18 November 2009. To submit views to the Institute, please e-mail, under heading "Circulars and Listing Documents", to [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk), no later than **2 November 2009**.

(iii) Proposed changes to connected transaction rules

This [consultation paper](#) seeks views on proposals to address specific issues in the regulation of connected transactions under the listing rules, which include review the definition of a connected person, provide exemptions for connected transactions

which are immaterial or involve persons not in a position to exercise significant influence, and amend the listing rules to address technical issues.

The consultation closes on 2 December 2009. To submit views to the Institute, please e-mail, under heading "Connected Transaction Rules", to [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk), no later than **16 November 2009**.

(iv) Conclusions on filing and checklist requirements for listing of equity securities

HKEx has published a [conclusions document](#) on its public consultation on proposals to streamline the filing and checklist requirements for listing of equity securities (see [TechWatch No. 82](#) for the proposals and [TechWatch No. 83](#) for the Institute's comments). The document presents the comments received and HKEx's responses and conclusions.

Given that majority of the respondents supported the proposals, HKEx has decided to implement the proposals, with some modifications after taking into account respondents' views.

The listing rule amendments to implement the proposals have been released. They will become effective on 2 November 2009.

(v) Conclusions on general mandates

HKEx has published [consultation conclusion](#) on Issue 11 (General Mandate) of its 2008 Combined Consultation Paper on proposals to address 18 substantive policy issues (see [TechWatch No. 64](#) for the proposals and [TechWatch No. 67](#) for the Institute's comments). Issue 11 sought views on various aspects relating to the issue of securities under a general mandate.

Having considered the market responses and based on its analysis of the current facts and circumstances, HKEx has concluded

that there are no compelling grounds for deviation from the status quo, and that there are also no prevailing general consensus on the appropriate direction and extent of any possible reform.

Accordingly, there are no amendments to the Listing Rules with regard to general mandates.

### 13. Institute Comments on Proposals on Rights Issues and Open Offers

As reported in [TechWatch No. 82](#), HKEx issued a consultation paper to seek views on proposals to expedite the process for rights issues and open offers.

The Institute agrees with most of the proposals, except the proposed shortening the notice period for book closure for open offers from the existing 14 calendar days to five business days.

Under the current proposal, for an open offer, shareholders may have only two trading days to sell the shares during the notice period before they go ex-entitlement. The Institute considers that this is unlikely to be sufficient in all cases, in particular, where there are a number of parties, e.g., global custodian, fund managers, beneficial owners, etc., involved in the process. For this and other reasons, the Institute considers that additional trading days during the notice period may be required for an open offer.

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

### Professional Accountants in Business

#### 14. 2009 Best Corporate Governance Disclosure Awards

This year's [Best Corporate Governance Disclosure Awards](#) ("2009 Awards") is progressing well and the judging process is now under way. The results will be announced in a presentation luncheon scheduled to take place in late November 2009.

#### 15. IFAC PAIBC Meeting in New York

The IFAC professional accountants in business committee met in New York during 7 – 9 October 2009. The committee discussed IFAC's strategy for improving services to its PAIB constituency, as well as specific projects on the future roles and competencies of PAIBs, governance, risk management and internal control, performance management and sustainability.

For more information about the work of the committee and related news see [IFAC: International Centre for PAIBs](#).

### Restructuring and Insolvency

#### 16. Official Receiver's Office Invites Tenders for Bankruptcy Work

The Official Receiver's Office ("ORO") is [inviting tenders](#) by noon, 30 October 2009 for taking up appointments as provisional trustee under s.12(1A) of the Bankruptcy Ordinance (Tender Ref: OR/C/2009).

Tender forms and further particulars can be obtained from the ORO, 10/F, Queensway Government Offices, 66 Queensway, Hong Kong. Additional information is also available on the ["Tender Notice"](#) page of the ORO website.

### Taxation

#### 17. Institute Submits Views on Exchange of Information and Other Tax Legislation

- (i) Exchange of tax information

The Institute expressed support in principle to allow a more extensive exchange of information ("EOI") in the context of comprehensive double taxation agreements ("CDTAs"), as proposed under the [Inland Revenue \(Amendment\) \(No.3\) Bill 2009](#). The Institute believes that the more favourable tax reliefs obtainable through a wider network of CDTAs will help to strengthen Hong Kong's position as an international financial and business centre.



At the same time, a balance needs to be struck between providing relevant information about taxpayers and preventing “fishing expeditions” and use of information for purposes beyond those envisaged by a CDTA. For this reason, the Institute pointed out that adequate safeguards are needed against any misuse of the EOI provisions.

In relation to safeguards, the Institute’s [submission](#) made several points, including the following:

- (a) The complete set of proposals, including draft subsidiary legislation and indicative wording of relevant provisions to be included in CDTAs, should be presented for consideration along with the Bill.
- (b) To provide safeguards with legal authority and procedural certainty, the safeguards should be incorporated in subsidiary legislation, i.e., in rules under the Inland Revenue Ordinance or in CDTAs, which also have the status of subsidiary legislation.
- (c) To guard against “fishing expeditions”, the threshold for requesting information should be clearly defined and not be susceptible to a very broad interpretation.
- (d) To protect confidentiality, routine disclosures to other jurisdictions, law enforcement agencies and judicial authorities should not be permitted.
- (e) To reduce the risk of inaccurate personal data being exchanged under a CDTA, the operation of the mechanism for notifying taxpayers of requests relating to them should be clarified.
- (f) To ensure proper checks and balances on the system, periodic reviews of the system should be carried out by an independent, external body and its findings made public.

(ii) Board of Review

The Institute agrees with the proposed amendments relating to the procedure and operation of the Board of Review (“BOR”), contained in the [Inland Revenue \(Amendment\) \(No.2\) Bill 2009](#), which are fairly limited in scope and non-controversial. They relate to:

- (a) Nomination of members to hear appeals by the chairman of the BOR, rather than by a government official.
- (b) Expanding circumstances under which a member whose appointment expires before a case is completed, is able to continue to deal with that case.
- (c) Arrangements for determining who has the casting vote where both the chairman and a deputy chairman are involved in hearing a case.

While supportive of the Bill, the Institute also notes that the Court of Final Appeal (“CFA”) has raised questions about whether the existing structure of the BOR properly facilitates the hearing of complex tax appeals. The judges in the case of *ING Baring Securities Ltd v CIR* asked whether it is time to establish a tribunal served by full-time members.

In this regard, the Institute suggests that the government consider making more extensive changes to the operation of the BOR. The Institute considers that two important areas for attention are the composition of the BOR and the “case stated” procedure, which applies in appealing decisions of the BOR to the court.

More details are contained in the Institute’s [submission](#).

## 18. Inland Revenue Department Revises DIPN 33

**DIPN 33** has been revised to reflect the current assessing practice adopted by the Inland Revenue Department in ascertaining the tax liability of insurance agents. It has also been updated with recent Board of Review decisions and court judgments involving insurance agents or having impact on the tax liability of insurance agents, particularly with regard to the taxability of upfront payments and deductibility of repayment of upfront payments.

### Legislation & Other Initiatives

## 19. Combating Money Laundering/Terrorist Financing

Members may wish to note that the following updated lists and statements have been published in the government gazette or other publications:

- **Government notice 5472:** Updated list of terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **US executive order 13224:** Adds names of individuals and entities to 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

## 20. New Books in the Library

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

## 21. Other Publications

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

- (i) Tips for small business - report and articles by ICAEW:
  - **Protect your firm against swine flu**
  - **Make your relationship with a big client work**
  - **Prepare for a smooth succession**
- (ii) Articles on corporate governance by Deloitte
  - **Ten things for boards of directors to avoid**