



STANDARDS & TECHNICAL

NEWS AT A GLANCE

TechWatch is a publication designed to alert members to topics and issues that impact on CPAs and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Mrs. Patricia McBride, Director, Standard Setting by [email](#).

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TechWatch is prepared by the Hong Kong Institute of CPAs and is intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Institute endeavours to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted by the Institute.

The Editorial Team Members of TechWatch are:

Patricia McBride, Elaine Chan, Elsa Ho and Steve Ong, Standard Setting Department

Peter Tisman, Mary Lam and John Tang, Specialist Practices Department

Gary Wong and Margaret Lam, Member Services Department

Michael Chan and Alfred Wong, Quality Assurance Department

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Spotlight

1. Handbook Update 31

Update 31 encloses the revised HKSQC 1 “Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements” and the revised HKSA 330 “The Auditor’s Procedures in Response to Assessed Risks”.

The revisions to HKSQC 1 and HKSA 330 are the result of the conforming amendments of HKSA 230 “Audit Documentation”, issued in February 2006 under Handbook Update 26, reflected in the appendices to HKSQC 1 and HKSA 330. Systems of quality control in compliance with revised HKSQC 1 are required to be established by 15 June 2006. The conforming amendments to HKSA 330 are effective for audits of financial statements for periods beginning on or after 15 June 2006.

Given that the conforming amendments are now effective, they are incorporated into the body of HKSQC 1 and HKSA 330.

2. PSMC Issues Operations Report 2005

The Professional Standards Monitoring Committee (“PSMC”) has recently published its **Operations Report 2005 – Monitoring and Review: Driving a Regulatory Stance**. The purpose of the report is to set out the PSMC’s work completed in 2005, the processes undertaken in relation to its review of financial statements, and to introduce the new structure and composition of the PSMC in 2006.

In the review of financial statements, the PSMC identified areas which require improvement in financial reporting. It was aware of issues relating to changes in the financial reporting standards effective from 1 January 2005, which may have a significant impact on financial statements that are published in 2006. These educational points, shown in the Appendix to the report, are useful to accountants who are preparing or auditing financial statements.

CPD & Events

3. Professional Development Activities August To December 2006

The Institute is committed to provide an all rounded CPD programme to suit the different needs of members. Highlights for the months of August to December are:

New Technical Update Evening (TUE) Programme

The new **TUE programme** covering the period from August to December 2006 features a number of important auditing and financial reporting topics, which include:

- 618 (28 August) Commonly asked financial reporting questions (re-run)
- 619 (21 September) Application of the conceptual framework to independence
- 620 (10 October) Fair Value Measurement Guidance
- 621 (7 November) The New Audit Report Standards – HKSA 700 and HKSA 701
- 622 (28 November) Financial Reporting Council Ordinance
- 623 (12 December) Financial Reporting Review 2006

To secure your seats, please register early by completing the [registration form](#) and returning it to the Institute.

Accounting & Auditing

- **HKAS 16, 17 and 40 and Interpretations 1, 2 and 4 (Re-run)** (14 Sept)
- **HKAS 12 Income Taxes** (23 Sept)
- **HKFRS 1 First-time Adoption of HKFRSs** (27 Sept)

Corporate Finance

- **Market Misconduct and the Investigation and Enforcement Powers of the SFC under the SFO** (8 Aug 06)
- **Tactical Use of the Takeovers Code to Achieve Ultimate Shareholder Activism** (9 Aug)
- **Essence of Retirement Planning – Why and How** (29 Aug)
- **A Revisit of the SFC Licensing Provisions Following Recent Disciplinary Actions Against Unlicensed Dealing** (31 Aug)
- **Depository Receipt** (20 Sept)
- **A Regulated Person's Rights After the SFC's Publication of the Guidance Notes on Cooperation with the SFC in March 2006** (28 Sept)

Information Technology

- **Competing on Intelligence** (17 Aug)
- **How to make IT System Works for You?** (26 Sept)

Legal

- **The Basic Legal Principles and New Law Governing Shareholders Disputes** (15 Sept)

Others

- **Investor Relations** (21 Aug)
- **Developing an Effective IPR Strategy for China** (12 Sept)

PRC

- **Workshop on PRC Taxation** (9 - 30 Sept)

Soft Skills & Language

- **Meyers-Briggs Type Indicators for Management Development and Team Building** (5 Aug)
- **Crucial Confrontations and Conversations** (2 Sept)
- **How to Use Psychometric Tests and Assessment to Strengthen Staff Performance Management** (5 Sept)
- **Coaching for Performance** (9 Sept)
- **Communicative Competencies for Accountancy Professionals** (13 Sept)
- **Managing Changes – How to Implement Organization Changes?** (18 Sept)

See the full programme [here](#) and register now to avoid disappointment.

Financial Reporting

4. Institute Invites Comment On IASB Consultation Documents

(a) ED of Proposed Amendments to IAS 32 and IAS 1

The Institute has issued an **Invitation to Comment** on IASB Exposure Draft (“ED”) of Proposed Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation* with comments requested by **6 October 2006**.

IAS 32 requires an instrument to be classified as a liability if the holder of that instrument can require the issuer to redeem it for cash. That straightforward principle works well in most situations. However, many instruments that would usually be considered equity, including some ordinary shares and partnership interests, include provisions that allow the holder to ‘put’ the instrument (to require the issuer to redeem it) for cash. The instruments are therefore considered liabilities, rather than equity, under the existing provisions of IAS 32.

Under the proposed amendments, the following types of financial instruments would be classified as equity, provided that specified criteria are met:

- ordinary shares that are puttable to (i.e. redeemable from) the issuer at fair value;
- ordinary shares of limited life entities; and
- partners’ interests in a partnership that must liquidate upon exit of a partner (e.g. on retirement or death).

(b) Discussion Paper on *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*

The Institute has issued an **Invitation to Comment** on IASB Discussion Paper on *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information* with comments requested by **6 October 2006**.

This Discussion Paper contains the first results from the IASB joint project with the US Financial Accounting Standards Board (“FASB”) on the conceptual framework. It sets out their preliminary views on the first two chapters of an enhanced conceptual framework. The preliminary views restate the existing frameworks’ definition of the objective of general purpose external financial reporting as providing information that is useful to present and potential investors and creditors and others in making investment, credit and similar resource allocation decisions. The document also identifies relevance, faithful representation, comparability (including consistency) and understandability among the characteristics of financial information that make it decision-useful.

5. Institute Comments On IASB ED Of Proposed Amendments To IAS 1

The IASB ED of Proposed Amendments to IAS 1 *Presentation of Financial Statements* are aimed at enabling entities to present more clearly the financial information, in particular income and expenses, that is already required to be presented in accordance with the IASB’s standards. Under the proposals, an entity would present all income and expenses separately from changes in its equity that arise from transactions with its owners. Entities would have a choice of presenting income and expenses in a single statement or in two statements. An entity would also

be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period. The IASB ED reflects the proposals under Segment A of the IASB project.

The Institute's **submission** to the IASB, in general, does not support proceeding with the ED. The Institute considers that the issues addressed in the ED are not sufficiently important to warrant amending IAS 1 before the outcomes of the major revisions under Segment B of the IASB's Financial Statement Presentation project are known.

6. Institute Publishes Information Paper: Setting Hong Kong Financial Reporting Standards

The Institute has published an **Information Paper: Setting Hong Kong Financial Reporting Standards**. The paper is structured as Phase I and Phase II – Phase I outlines the existing standard setting structure and processes in Hong Kong, while Phase II outlines the steps Council plans in supporting the development of International Financial Reporting Standards (“IFRSs”) and the implementation of Hong Kong Financial Reporting Standards (“HKFRSs”) in Hong Kong.

Comments on the paper should be addressed to Mrs. Patricia McBride, the Institute's Director, Standard Setting.

7. Documents Recently Published By The IASC Foundation

- (i) **International Accounting Standards Committee (“IASC”) Foundation Annual Report 2005** – the Annual Report contains reports by the former Chairman of the Trustees and the Chairman of the IASB on the organisation's activities in 2005 and the IASB's plans for the future. It also presents the organisation's audited financial statements for 2005.
- (ii) **IASB's Due Process Handbook** – the Handbook sets out the IASB's procedures and emphasises the arrangements for transparency and consultation that are intrinsic elements of the IASB's due process.

8. IASB Takes Steps To Assist Adoption Of IFRSs And Reinforce Consultation – No New IFRSs Effective Until 2009

The IASB has announced a number of steps taken as a result of ongoing review of its work programme and of market practices, including the following:

- **Increased lead time to prepare for new standards:** The IASB recognises that many countries require time for translations and implementation of new standards into practice and, where IFRSs are legally binding, into law. To accommodate the time required, the IASB intends to allow a minimum of one year between the date of the publication of wholly new IFRSs or major amendments to existing IFRSs and the date when implementation is required.
- **Increased opportunity for input on conceptual issues:** The IASB and the US FASB have agreed to publish discussion papers, rather than moving directly to exposure drafts, on the individual sections of their Conceptual Framework project. The IASB announced that it will also publish a discussion paper as the next step of its Fair Value Measurement project, which is aimed at providing consistency in the application of existing fair value requirements. The decision to use discussion papers as part of these projects means that there will be at least two opportunities for public comment.
- **Public round-tables on key topics:** The IASB will hold public round-table discussions in the near future on two key topics on which constituents have expressed particular interest. The first is on proposed amendments to the recognition and measurement principles in IAS 37

Provisions, Contingent Liabilities and Contingent Assets. These round-tables will be held in November and December of this year. The second is on measurement phase of the Conceptual Framework project. Discussions will focus on the range of possible measurement attributes, including cost and fair value, that could be used both at initial recognition and subsequently. The round-tables will be held in the first quarter of 2007.

Consistently with the steps described above, the IASB will not require the application of new IFRSs under development or major amendments to existing standards before 1 January 2009. The establishment of 2009 as the first date of required implementation of new standards will also provide countries yet to adopt IFRSs with a clear target date for adoption.

By refraining from requiring new standards to be applied before 2009, the IASB will also be providing four years of stability in the IFRS platform of standards for those companies that adopted IFRSs in 2005. The establishment of this approach does not preclude the publication of new standards before that date, and companies would be permitted to adopt a new standard on a voluntary basis before its effective date. Interpretations and minor amendments to deal with potential issues identified during implementation would not be subject to this approach.

9. **FRSC Meeting Summary – 14 June 2006**

This [FRSC meeting summary](#) covers:

- Responses from the IASB on financial reporting issues
- Information Paper: Setting Hong Kong Financial Reporting Standards
- Proposed UITF Abstract “The interpretation of equivalence for the purposes of section 228A of the Companies Act 1985”
- Report from the SME Framework Sub-Committee

Audit & Assurance

10. **Institute Comments On IAASB ED On The Audit Of Group Financial Statements**

The Institute’s [submission](#) to the IAASB on the ED of proposed ISA 600 (Revised and Redrafted) on the Audit of Group Financial Statements indicates that it is supportive of the revision and redrafting, in particular the basis of the ISA that a group auditor takes sole responsibility for the audit opinion on the group financial statements. This requires the group auditor to obtain sufficient appropriate evidence on which to base such an opinion. In addition, the separation of the requirements and application guidance following the Clarity drafting conventions has greatly improved the understandability of the requirements of group auditors and the key principles underlying them.

The Institute’s submission highlights some concerns in the following areas and recommends that the IAASB addresses the issues before finalising the ISA:

- Greater credit to be given to the value of effective internal controls within network firms;
- The practicality of requiring “direct supervision” by the engagement partner;
- The responsibilities of Other Auditors; and
- The requirement to determine the identity of the components in each particular engagement.

11. AASC Meeting Summaries – 23 May and 21 June 2006

The **AASC meeting summary** of 23 May 2006 covers:

- HKICPA submission on IAASB ED of proposed ISA 550 (Revised) on Related Parties
- Issuance of ED of HKICPA Discussion Paper “Requests For Special Purpose Reports”
- Status of Mainland audit issues guidance
- Accountants’ Report Project – Progress Report
- Revised Hong Kong Corporate Governance Requirements
- Proposed Annual Auditing Update Conference
- HKICPA submission on the Industry Consultation on Draft Accounting Manual for Television Programme Service Licensees
- HKICPA/SFC REIT Working Group meeting on 28 April 2006
- Statement 1.207 on Changes in a professional appointment

The **AASC meeting summary** of 21 June 2006 covers:

- Proposed HKSA 700 “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and HKSA 701 “Modifications to The Independent Auditor’s Report”
- Social Welfare Department on Audit Reports for Public Subscription Permits
- HKICPA ED of Discussion Paper “Requests For Special Purpose Reports” – draft consultation programme
- Proposed Annual Auditing Update Conference
- Accountants’ Report Project – Progress Report
- Referral from the Financial Reporting Standards Committee

Ethics

12. Ethics Committee Meeting Summary – 6 June 2006

This **meeting summary** covers discussion of the agenda items of the International Ethics Standards Board for Accountants (IESBA)’s June 2006 meeting, which was attended by Mr. Mark Fong, Vice President and Chairman of the Institute’s Ethics Committee, as a member of the IESBA, and Mrs. Patricia McBride, Director, Standard Setting, as technical advisor to Mr. Fong. Topics discussed were:

- Network firms
- Independence

Banking

13. Disclosure Of Regulatory Reserve

The Institute developed in late 2005, in consultation with the Hong Kong Monetary Authority (“HKMA”), an [example disclosure note on regulatory reserve](#) which seeks to provide assistance to members who work in authorized institutions (“AIs”) or those who audit authorized institutions. The example disclosure note provides an example describing the nature and purpose of the regulatory reserve referred to in the HKMA’s [Guidance to AIs “Impact of the New Hong Kong Accounting Standards on AIs’ Capital Base and Regulatory Reporting”](#) issued in April 2005, which requires that AIs should generally hold a regulatory reserve in excess of individual and collective impairment allowance recognised under HKAS 39 *Financial Instrument: Recognition and Measurement*.

The Expert Panel on Banking recently met with the HKMA and understands that some of the disclosure notes made by AIs in their financial statements for the year ended 2005 did not give sufficient explanation about the purpose of the regulatory reserve. Members are reminded that paragraph 76(b) of HKAS 1 *Presentation of Financial Statements* requires disclosure of the nature and purpose of each reserve within equity. The HKMA would also like the disclosure note to indicate that movement in regulatory reserve is subject to consultation with the HKMA.

Taxation

14. Government Releases Consultation Document On GST

The government has released a consultation document on the introduction of a goods and services tax (“GST”), as first announced by the Financial Secretary in the 2005/06 Budget Speech. The document, entitled, [“Broadening the Tax Base Ensuring Our Future Prosperity – What’s the Best Option for Hong Kong?”](#) was released on 18 July 2006 and, on the following day, Mr. Paul Chan, the Institute’s president conducted a [media briefing](#). Mr. Chan said that the Institute had been advocating for a way to broaden the tax base for a number of years and a goods and services tax represented a means of achieving this. Mr. Chan was pleased to see that the government had adopted so many of the Institute’s recommendations on technical aspects.

The Institute has commented on GST and related matters in its budget submissions, including, [Budget Proposals 2006/07](#) and [2005/06](#). Further back, in October 2001, the Institute also issued a detailed [submission](#) in response to the consultation document entitled “A Broader-based Tax System for Hong Kong?” published by the government-appointed Advisory Committee on New Broad-based Taxes, as reported in [TechWatch No. 1](#).

The Institute’s Taxation Committee is in the process of studying the GST consultation document with a view to making a submission to the government.

Government Legislation & Other Initiatives

15. Institute Issues Updated Technical Bulletin On Anti-Money Laundering And Anti-Terrorist Financing

The Institute has issued an updated technical bulletin, which provides information to members on the current requirements on anti-money laundering and anti-terrorist financing, in particular on dealing with the proceeds of crime and reporting suspicious transactions.

Amongst other things, the new bulletin alerts members to revised Forty Recommendations (“40Rs”), issued by the Financial Action Task Force on Money Laundering and their implications for the future regulatory regime. Legislation to fully implement the revised 40Rs in Hong Kong has not yet been introduced and it is envisaged that the bulletin will require some further revision when the law is introduced.

The **technical bulletin** comprises four parts:

- (i) **Background**
- (ii) **Current anti-money laundering/anti-terrorist financing legislation in Hong Kong**
- (iii) **Recommended policies and procedures in relation to the reporting of money laundering and financing activities**
- (iv) **Supplement – Implications of the Revised Forty Recommendations issued by the Financial Action Task Force on Money Laundering**

The new bulletin updates and replaces the previous and now outdated bulletin on this subject, namely, **Technical Bulletin 13 “Drug Trafficking (Recovery of Proceeds) Ordinance 1989”**.

Corporate Governance

16. Institute Invites Entries For Best Corporate Governance Disclosure Awards 2006

A **press** conference to launch the Institute’s 2006 Best Corporate Governance Disclosure Awards (“2006 BCGD Awards”) was held on 6 July 2006.

The Best Corporate Governance Disclosure Awards (“BCGD Awards”) competition aims to encourage and promote good corporate governance disclosure and practices in Hong Kong, and to recognise those companies and organisations that set the standard in terms of corporate governance in Hong Kong and those that demonstrate a genuine commitment to improving their disclosure and practices, as evidenced by their annual reports.

Now entering its seventh year, the BCGD Awards has become well established on the corporate governance scene in Hong Kong. It continues to play an important role in establishing benchmarks, encouraging improvements in the standard of corporate governance and raising awareness of the need for greater transparency and accountability to shareholders and stakeholders, prospective investors, the market generally and, in the case of public sector entities, the wider community.

The Institute is now inviting entries from companies listed on the Main Board and the Growth Enterprise Market (GEM) of the Stock Exchange, as well as public sector/not-for-profit organisations, to take part in the 2006 BCGD Awards competition.

A new development this year is the introduction of a separate awards category to establish benchmarks and identify good corporate governance role models amongst H-share companies. The 2006 BCGD Awards, therefore, cover the following five categories:

- (i) Hang Seng Index (HSI)-constituent companies
- (ii) Non-HSI Main Board-listed companies
- (iii) GEM-listed companies
- (iv) H-share companies listed on Main Board or GEM
- (v) Public sector/not-for-profit organisations

There will be Diamond, Platinum and Gold Awards in each of the categories and also Significant Improvement Awards.

Entrants will be judged on the quality and standard of presentation and disclosure of corporate governance information contained in their annual reports covering the 2005/06 financial year. The reviewers and judges are looking in particular for voluntary disclosures that go beyond the minimum legal and regulatory requirements.

We hope that members working in companies/organisations that are eligible to enter the 2006 BCGD Awards, or who are working as auditors of such companies/organisations, will show their support to the competition by encouraging their employer companies/organisations or clients, respectively, to participate in the 2006 BCGD Awards. The deadline for entry is **25 August 2006**.

The 2006 BCGD Awards **pamphlet** contains further details, including an entry form.

International Meetings

17. International Accounting Standards Board

The IASB met in London on 17 – 21 July 2006 and discussed the following topics:

- Business Combinations II
- Insurance
- Accounting standards for small and medium-sized entities
- IAS 37 redeliberations
- Proposed amendments to IFRS 2
- Conceptual Framework
- Revenue recognition
- Short-term convergence: segment reporting
- Short-term convergence: joint ventures
- Consolidations (including special purpose entities)
- Financial statement presentation
- Update on IFRIC activities
- Employee benefits (pensions)
- Process for non-urgent, minor amendments to standards
- Leasing
- IAS 24 *Related Party Disclosures*

Click [here](#) to see the July 2006 IASB Update of the Board Decisions on IFRS. The IASB next meets on 18 – 22 September 2006.

18. International Financial Reporting Interpretations Committee

The IFRIC met in London on 6 and 7 July 2006 and discussed the following topics:

- IAS 18 *Revenue* – Customer Loyalty Programmes
- IFRS 2 *Share Based Payment* – Group and Treasury Share Transactions

- Service Concession Arrangements
- IAS 19 *Employee Benefits* – The effect of a minimum funding requirement on the asset ceiling
- IAS 18 *Revenue* – Guidance on identifying agency arrangements
- IAS 39 *Financial Instruments: Recognition and Measurement* – Securitisations: Derecognition of groups of financial assets
- IFRS 2 *Share-based Payment* – Employee benefit trusts in the individual or separate financial statements of the sponsor
- IAS 11 *Construction Contracts* / IAS 18 *Revenue* – Allocation of profit in unsegmented contracts
- IAS 39 *Financial Instruments: Recognition and Measurement* – Identification of a portion of an exposure eligible for hedge accounting
- Update on Agenda Committee discussions
- IFRIC Agenda Decisions
- Tentative Agenda Decisions

Click [here](#) to see the July 2006 IFRIC Update. The IFRIC next meets on 7 to 8 September 2006.

19. **International Auditing And Assurance Standards Board**

The meeting summary for the May 2006 IAASB meeting held in New York has now been posted on the IAASB website. Click [here](#) for further details.

The IAASB has just met in Brussels from 10 – 13 July 2006, as reported in [TechWatch No. 45](#), and will next meet in Montreal from 18 – 22 September 2006.

Comment Due Dates

DATE	SUBJECT
11 September 2006	IASC Foundation's Consultation Document – Due Process of The International Financial Reporting Interpretations Committee Draft Handbook.
13 September 2006	IASB Exposure Draft of Proposed Amendments to IAS 23 <i>Borrowing Costs</i>
6 October 2006	IASB Exposure Draft of Proposed Amendments to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation</i>
6 October 2006	IASB Discussion Paper on <i>Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information</i>
31 October 2006	HKICPA Exposure Draft of Discussion Paper “ <i>Requests for Special Purpose Reports</i> ”
Please send comments to commentletters@hkicpa.org.hk	