

This is the Second Issue of TechWatch, a publication designed to alert members to topics and issues that impact on accountants and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Ms. Winnie Cheung, Senior Director, Professional & Technical Development, Hong Kong Society of Accountants (email:<commentletters@hkasa.org.hk>).

This issue (and all back issues) is available online at the Society's website <<http://www.hkasa.org.hk/professional/>> under "TechWatch (Members only)".

If you would prefer to receive future issues electronically via email or in hard copy format, you may register or alter your option online at the Members Only section of HKSA web page under "Personal Profile – Publications Preferences". If you have any questions, please contact Karen Moy, Administrative Officer, Professional & Technical Department at <karen_moy@hkasa.org.hk> or tel: 2287 7089.

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Accounting & Financial Reporting

HKSA Comments On IASB's Draft Preface To IFRS

The HKSA has sent a comment letter to the International Accounting Standards Board (IASB) on the exposure draft (ED) Preface to International Financial Reporting Standards (IFRS).

In summary, the HKSA comment letter:

- ✓ Recommends that the Preface be scoped appropriately to include all of the IASB's present and contemplated projects;
- ✓ Agrees with the proposed removal of the distinction between bold italic type and plain type in an IFRS;
- ✓ Recommends that the IASB provide a minimum period of four months for the submission of comments on exposure drafts; and
- ✓ Suggests that it is appropriate for the IASB to indicate in the Preface how it proposes to give effect to the issue of monitoring financial reports prepared in accordance with IFRS.

A copy of the comment letter is available on the HKSA's website (under "Professional Services", "HKSA Submissions"). The IASB's draft is open for comment until 15 February 2002, and may be viewed at IASB's website <<http://www.iasb.org.uk>>.

IFAD GAAP 2001 Report Compares National Accounting Standards And IASs In 62 Countries

The International Forum on Accountancy Development (IFAD) have recently published their report, "GAAP 2001", which compares national accounting standards with International Accounting Standards in 62 countries. It also includes an analysis of changes and progress made in each country since the GAAP 2000 report was issued. The 62 countries surveyed represent more than 95% of the world's Gross National Product and stock market capitalisation.

A copy of the report may be viewed at the IFAD's website <<http://www.ifad.net>>.



Audit & Assurance

SFC Proposes New Audit Reporting Requirements In “The Draft Securities And Futures (Accounts And Audit) Rules” Consultation Document

The SFC invites market participants and interested parties to submit written comments on the Consultation Document by 31 January 2002.

The proposed Rules, one of the Subsidiary Legislation to the Securities and Futures Bill to be enacted, prescribe the financial statements and other documents to be prepared by intermediaries licensed by the SFC for carrying on regulated activities “Licensed Corporations” and their associated entities, and also the audit reporting requirements thereon. The proposed Rules have drawn on the Securities (Accounts and Audit) Rules, the Commodities (Accounts and Audit) Rules and the Leveraged Foreign Exchange Trading (Accounts and Audit) Rules, and incorporated several policy changes as follows:

- a. to apply the same Rules to all Licensed Corporations and their associated entities;
- b. to require submission of selected parts of the monthly returns as stipulated by the Securities and Futures (Financial Resources) Rules and for the same to be reviewed by the auditors;
- c. to obtain confirmation from the Licensed Corporation or associated entity that it has adequate systems of control in place to ensure compliance with the Securities and Futures (Client Money) Rules and the Securities and Futures (Client Securities) Rules, and to require the auditors to report on the management assertion; and
- d. to obtain further information from the Licensed Corporation or associated entity about its business and risk management by way of a questionnaire.

The HKSA has been consulted by the SFC in its formulation of the proposed Rules. The HKSA is reviewing the proposed Rules and a submission will be sent to the SFC in due course.

The Consultation Document is available at the SFC website at <<http://www.hksfc.org.hk>> under “What’s New”. Members are encouraged to review the Document and submit their comments on the proposed Rules to the SFC by 31 January 2002.

HKSA Comments On Proposed International Standard on Auditing ED “Auditing Fair Value Measurements And Disclosures”

The HKSA has sent a submission to the IFAC setting out a few comments on the ED. In summary, while supporting the ED, the HKSA suggests that further guidance should be provided on the methodology and procedures concerning the auditors’ assessment of inherent and control risks related to fair value measurements and disclosures in the financial statements. The submission can be viewed at the Society’s website <<http://www.hksa.org.hk/professional/>>.

Revisions To PN 860.1 “The Audit Of Retirement Schemes”

The PN has been revised to incorporate additional guidance relevant to the auditors of MPF schemes. The revised PN was issued with Members’ Handbook Update 20/01 and is available at the Society’s website <<http://www.hksa.org.hk/professional/>> under “Professional Pronouncements” and “Volume III-B”.

You should pay attention to the new sample auditors’ reports in the Appendix to the PN, particularly samples 1 and 2 for an MPF scheme and samples 7 and 8 for an ORSO scheme. As a result of the issuance of the Standards on Assurance Engagements (SAEs) framework - SAE 100 “Framework for assurance engagements intended to provide either a high or moderate level of assurance” and SAE 200 “High level assurance engagements” last year, auditors are required to conduct the audit of the financial statements of a scheme in accordance with the Statements of Auditing Standards (SASs) framework, and at the same time, to conduct the engagement to report on a scheme’s compliance with the MPF or ORSO statutory requirements in accordance with the SAEs framework. As a consequence, auditors will need to issue two separate auditors’ reports for an audit of a scheme, one on its financial statements and another on its compliance with the relevant statutory requirements.

Help For SMPs

- [Example Engagement Letter For Building Owners’ Corporation Audit](#)

The Building Management Ordinance was amended in 2000 and as a result, except in the case of a corporation incorporated in respect of a building which contains not more than 50 flats, the accounts of a corporation are required to be audited by CPAs.

The Small and Medium Practitioners Committee (SMPC) has prepared an example engagement letter (in English and Chinese) for an audit of the accounts of a corporation to help practitioners communicate with their clients on the terms of engagement for such an audit appointment.

The example letter is available at the HKSA’s website <<http://www.hksa.org.hk/professional/>> under “Small and Medium Practitioners – Help for SMPs (Members Only)”. The letter is provided for reference only and should not be taken as comprehensive or appropriate to be used in relation to the audit of every corporation, and must be tailored to specific circumstances.

- [Directory Of CPA Services](#)

The SMPC has prepared a list of example CPA services (in English and Chinese) to help practitioners in preparing their own promotional materials for marketing purpose.

The list is available at the HKSA’s website <<http://www.hksa.org.hk/professional/>> under “Small and Medium Practitioners – Help for SMPs (Members Only)”.

The list is provided for reference only, and should not be taken as comprehensive or appropriate to be used by every practitioner, and must be tailored to specific circumstances.

Members' Views Sought On Practice Manual And Sample Working Papers

The Practice Manual and Sample Working Papers were developed under the auspices of the SMPC for sale as reference materials to practitioners. They were first published in 1996 and subsequently updated last year.

The SMPC is planning the next update of these two documents, and is seeking the views/feedback of the users on these two documents through a Questionnaire issued on 14 January 2002. Current or past users of these two documents are requested to submit their views/feedback on these two documents by completing the Questionnaire and returning it to the Society on or before 8 February 2002 by e-mail, fax or post.

The Questionnaire can also be downloaded for completion from the HKSA's website <<http://www.hksa.org.hk/professional/>> under "Small and Medium Practitioners –

Practice Manual and Sample Working Papers Questionnaire".

Queries Regarding SAS 402 -- Banks To Confirm Authorized Signatories

SAS 402 "External confirmations" was issued in August 2001 which includes a section on "bank confirmation requests" and a standard bank confirmation request form. The form, which was issued in 1986, has been developed by the Society in conjunction with the Hong Kong Association of Banks.

The Society has recently received a few enquiries from members and bankers asking whether the need for banks to confirm the completeness and accuracy of the authorized signatories, as set out in paragraph 2 on page 1 and paragraph 2 of the "Bankers' Confirmation" section on page 4 of the standard bank confirmation request form, is a new requirement introduced by SAS 402.

It should be noted that, since the standard bank confirmation request form has been issued to members for use since 1986, the need for banks to confirm the completeness and accuracy of the authorized signatories is not a new requirement.



Tax

HKSA Proposals For The 2002 Budget

The Society submitted its 2002 Budget Proposals to the Financial Secretary in December 2001 under the title (in English) "*Hong Kong: Re-enter the Dragon*", which some members may realise is a play on the title of well-known Bruce Lee martial arts film. This is intended to reflect the vibrant spirit and the qualities of strength, resourcefulness and confidence that have helped Hong Kong to achieve its present status and that will be needed once more if Hong Kong is to rise to the opportunities and meet the challenges ahead.

The submission, which can be viewed at <<http://www.hksa.org.hk/professional/>> under "HKSA Submissions" outlines a number of possible tax measures under the following headings:

- Improving the business environment generally in Hong Kong;
- Incentives for specific business sectors, such as financial services, information technology, logistics, tourism and heritage, the film industry and fashion design;

- Improving business in Hong Kong as part of China and enhancing Hong Kong's position as the Mainland's natural trading partner;
- Improving the taxation system; and
- Social measures/measures to relieve hardship.

Inland Revenue Proposals For Anti-avoidance Measures Regarding The Source Of Intellectual Property Rights And Interest On Debentures Are Held Up

The Inland Revenue (Amendment) Bill 2000 proposes to introduce certain anti-avoidance provisions in relation to source of intellectual property rights under section 15 of the Inland Revenue Ordinance (Cap. 112) ("IRO") and the deduction of interest on debentures under section 16. The Society and a number of other bodies have raised concerns about the effects of the proposed changes and in particular the practical consequences of the amendments to s16 on businesses seeking to raise funds. The Bill is still stalled in the Legislative Council pending resolution of the above outstanding issues.

The Society's submissions, dated 1 December 2000 and 7 June 2001, can be accessed at the HKSA website under "HKSA Submissions" (see above).



Corporate Restructuring & Insolvency

The Companies (Corporate Rescue) Bill -- Introduces A Liability On "Managers" For Insolvent Trading

Apart from the provisions which aim to establish a legal framework for rescuing companies in financial difficulties, i.e. provisional supervision, the Companies (Corporate Rescue) Bill also seeks to introduce legislative provisions to deal with the issue of insolvent trading.

The Society is in support of the insolvent trading provisions of the Bill with the exception of the concern on the extension of liability for insolvent trading to staff below director. This extension of liability goes beyond equivalent provisions overseas, such as the UK, under which liability is limited to directors only.

Under the Bill, a "responsible person" may be held liable for insolvent trading and be required to compensate the company.

The term includes a manager "who is involved to a substantial or material degree in directing the company's business or affairs and who knows, or ought reasonably to know, the company's solvency position". Even though under the Bill a manager can discharge this liability by informing the Board that the company is about to engage in or has engaged in insolvent trading, this could place an employee in an invidious position because he may fear that this will cost him his job.

Our recent submissions on the Bill, dated 25 September 2001 and 9 November 2001, can be viewed on the Society's website under "HKSA Submissions" (see above). As reported in TechWatch (Issue No.1), the Legislative Council's consideration of the Bill is being held in abeyance while the Government consults interested parties on alternative proposals regarding the provisions on employee entitlements.



Legislation & Government Initiatives

Review Of Copyright Law

As reported in TechWatch (Issue No.1), the Commerce and Industry Bureau ("CIB") of the Government issued a consultation document in October 2001 entitled "Review of Certain Provisions of Copyright Ordinance". The document can be accessed at the website of the CIB <<http://www.info.gov.hk/cib>>. The consultation period ended on 31 December 2001.

The Society made a submission to the CIB on the consultation document in which the overall view was expressed that any legislation to criminalise copyright infringements should be targeted specifically at what are generally accepted as being significant problem areas. It should avoid introducing a heavy-handed blanket criminalisation of other infringements that, on one hand, may have little or no material effect on copyright holders and, on the other, may impede the flow of information and, as a result, the process of learning and the quality of debate within the community. A copy of the submission may be accessed at the HKSA website under "HKSA Submissions" (see above).

Consultation On Civil Justice Reform In Hong Kong

The Chief Justice's Working Party on Civil Justice Reform was appointed by the Chief Justice in February 2000 to review the civil rules and procedures of the High Court. Its Interim Report and Consultative Paper basically builds on the Woolf reform in the United Kingdom and refers also to reforms in other relevant jurisdictions, such as New South Wales (Australia) and Ontario (Canada). The Report reviews available evidence as to the state of civil justice in Hong Kong and contains 80 proposals for possible reform. Two key concepts underlying the Woolf reforms, as implemented in UK, which are followed in the recommendations in the Consultative Paper, are:

1. Adoption of an explicit overriding objective setting out principles of procedural justice and economy to be treated as the foundation of the system, complemented by a new set of procedural rules to be construed and operated in accordance with the overriding objective.
2. Adoption of a comprehensive case management approach to civil procedure.

The objective of the recommendations for reform is to attempt to deal with some of the defects identified in Hong Kong's civil justice system which are similar to those that have been found in many systems elsewhere. For example, litigation in Hong Kong:

- is too expensive, with costs too uncertain and often disproportionately high relative to the claim and to the resources of potential litigants;
- is too slow in bringing a case to conclusion;
- operates a system of rules imposing procedural obligations that are often disproportionate to the needs of the case;
- is too open to tactical manipulation of the rules with the aim of delaying proceedings;
- is too adversarial, with the running of cases left in the hands of the parties and their legal advisers rather than the courts;
- is incomprehensible to many people with not enough done to facilitate use of the system by litigants in person; and
- does not do enough to promote equality between wealthy and less wealthy litigants.

The document may be accessed at <<http://www.civiljustice.gov.hk>>. Requests for a CD-ROM can be directed to <secretary@civiljustice.gov.hk>. Members of the Society are welcome to convey their views to the HKSA Expert Panel on Legal Matters, c/o John Tang, Assistant Director (Business & Practice). The consultation period ends on 30 April 2002.

Companies Registry's "Serving The Community Festival" Quiz

As part of the Government's 2-week (21 January – 2 February 2002) "Serving the Community Festival" to highlight

government services to the community, the Companies Registry ("CR") has devised a quiz to promote its own services. Cash prizes are on offer. Details of the quiz can be found at the CR's website <<http://www.info.gov.hk/cr/>> under "What's NEW".



Information Technology

Inland Revenue Introduces A Bill To Facilitate Password And Telephone Filing Of Tax Returns

The Inland Revenue Department ("IRD") is proposing to amend the IRO to facilitate the use of passwords, as an alternative to digital signatures, under the Government's ESD Scheme for electronic filing of certain types of individual tax returns. In addition IRD is intending to provide for telephone filing ("telefiling") of simple individual returns. The Electronic Transactions Ordinance ("ETO"), currently does not provide for these alternative forms of electronic transactions, and the IRD is proposing to provide the legal backing in the IRO, via the Inland Revenue (Amendment) (No. 2) Bill 2001.

HKSA started a dialogue with the IRD in December after the Bill was gazetted. This dialogue, through meeting and exchanges of correspondence, has helped to deal with the issues of the system design and security raised by the Society.

While HKSA acknowledged that the level of system integrity required/desired has been determined having due regard to the risk involved (the proposed password/telefiling being restricted to a limited type of returns only as stated in the LegCo brief (not the Law)), there are several general policy issues which the Society has raised and are worth noting.

Firstly, the decision to provide for passwords and telefiling on a "risk assessment" basis seems to represent an unacknowledged change in government policy, which has previously been to promote the use of digital signatures. There needs to be safeguards to ensure consistent application of the new policy.

Secondly, the Society believes that the scope and manner in which passwords may be used to authenticate legal documents and fulfil the signature requirement, and the standard of IT security required to support this additional method of e-filing, should ideally be defined in the law. The proposed Bill includes only the enabling provisions.

The Legislative Council is currently considering whether there is a need to set up a Bills Committee. The HKSA's submissions and IRD's replies (with the kind permission of the Commissioner) can be accessed at HKSA website under "HKSA Submissions" (see above).

HKSA 5th IT Conference: "IT² -- Information Technology Innovation Trends"

A reminder that the Society will be holding its 5th Information Technology (IT) Conference (a half-day event) on Saturday morning 2 February 2002 at the Hong Kong PolyU Jockey Club Auditorium. Under the theme "IT² - Information Technology Innovation Trends", the conference will update members on some current developments in IT and accountancy, including the proposal for a global network of accountancy institutes to stimulate international co-operation and innovation in relation to products and services offered by the profession. We have also invited the Hon Sin Chung Kai, the Legislative Council, IT functional constituency representative, to talk on IT laws and regulation. Other topics include IT risk management, security and corporate governance issues.

The full programme run-down can be accessed at <<http://www.hksa.org.hk>> (see the "What's New" column). Register now to guarantee your place !



Banking

2001 Package Of Changes To HKMA Guidelines on Financial Disclosure

The Hong Kong Monetary Authority issued the following guidelines on financial disclosure on 2 November 2001 which can be accessed at the website addresses indicated:

- Financial Disclosure by Locally Incorporated Authorized Institutions <<http://www.info.gov.hk/hkma/eng/bank/spma/attach/FD-1.pdf>> which supersedes the guideline dated 8 December 2000;
- Interim Financial Disclosure by Locally Incorporated Authorized Institutions <[\[eng/bank/spma/attach/FD-2.pdf\]\(http://www.info.gov.hk/hkma/eng/bank/spma/attach/FD-2.pdf\)> which supersedes the guideline dated 13 June 2001; and](http://www.info.gov.hk/hkma/</div><div data-bbox=)

- Financial Disclosure by Overseas Incorporated Authorized Institutions <<http://www.info.gov.hk/hkma/eng/bank/spma/attach/FD-3.pdf>> which supersedes the guideline dated 8 December 2000.

"The main changes are directed at enhancing credit risk disclosures in line with the Basel Committee's recommendations in recent papers issued on "Sound Practices for Loan Accounting and Disclosure" and "Best Practices for Credit Risk Disclosure".



Comment Key Dates

Outlined below are the submission closing dates for exposure drafts, discussion papers and other matters:

31 January 2002 – Consultation period on the SFC Consultation Document “The Draft Securities and Futures (Accounts and Audit) Rules” ends.

2 February 2002 – HKSA 5th IT Conference to be held at Hong Kong Polytechnic University Jockey Club Auditorium.

2 February 2002 – Deadline for entry to Companies Registry’s

“Serving the Community Festival” Quiz.

8 February 2002 – Deadline for returning the Questionnaire on Practice Manual and Sample Working Papers.

15 February 2002 – IASB Exposure Draft “Preface to International Financial Reporting Standards”. Please send comments to: <commentletters@iasb.org.uk> and copy to: <commentletters@hksa.org.hk>.

30 April 2002 – Consultation period ends on Civil Justice Reform Consultation Paper.



Members Ask

Many thanks to those of you who wrote to us after the first issue of TechWatch. Your feedback is valuable for us to provide you with a better service.

A member commented that the TechWatch summaries of recently published Statements of Standard Accounting Practice (SSAP) were helpful but asked whether more in-depth coverage to the SSAPs could be provided. TechWatch necessarily provides only an overview of topical issues of concern to accountants. Now that the HKSA has progressed significantly towards converging the SSAPs with the International Financial Reporting Standards, more in-depth coverage of the new and revised SSAPs will appear in The Hong Kong Accountant. An article on SSAP 31, Impairment of Assets, will appear in the February edition.

Another member referred to the interest in the legal opinion on “true and fair view”, referred to in the first issue of

TechWatch, and asked whether the Society could:

- (a) Advise members of the name of the counsel that had been instructed;
- (b) Make available to members the instructions to counsel as this will have a bearing on the opinion; and
- (c) Make available to members the further opinion of Lord Hoffmann and Mary Arden which are referred to in the opinion.

The HKSA provided Johnson, Stokes and Master (“JSM”) with instructions dated 29 June 2001 to obtain an opinion from a UK Counsel. JSM then instructed Mr. Robin Potts Q.C. who ultimately provided the legal opinion. The nature of our instructions are reflected in the legal opinion posted on the Society’s website. We do not have copyright to reproduce the opinion of Lord Hoffmann and Mary Arden.

TechWatch is prepared by the Professional and Technical Department of the HKSA and intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Society 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 HKSA.

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Appendix

Update On HKSSAPs Vs IASs

IAS No.	Name of Statement	SSAP No.	Outstanding	Targeted completion date
IAS 1	Presentation of Financial Statements	SSAP 1		
IAS 2	Inventories	SSAP 22		
IASs 3-6	Withdrawn	N/A		
IAS 7	Cash Flow Statements	SSAP 15		
IAS 8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.	SSAP 2		
IAS 9	Research and Development Costs (superseded by IAS 38)	SSAP 16		
IAS 10	Events After the Balance Sheet Date	SSAP 9		
IAS 11	Construction Contracts	SSAP 23		
IAS 12	Income Taxes		Exposure draft	30 April 2002
IAS 13	Withdrawn	N/A		
IAS 14	Segment Reporting	SSAP 26		
IAS 15	Information Reflecting the Effects of Changing Prices		On hold	
IAS 16	Property, Plant and Equipment	SSAP 17		
IAS 17	Leases	SSAP 14		
IAS 18	Revenue	SSAP 18		
IAS 19	Employee Benefits	SSAP 34		
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance		Exposure draft	28 Feb 2002
IAS 21	The Effects of Changes in Foreign Exchange Rates		Exposure draft (1997)	*
IAS 22	Business Combinations	SSAP 30		
IAS 23	Borrowing Costs	SSAP 19		
IAS 24	Related Party Disclosures	SSAP 20		
IAS 25	Accounting for Investments (Superseded by IAS 39 and IAS 40)	SSAP 13 and 24		
IAS 26	Accounting and Reporting by Retirement Benefit Plans	2.302 "Financial statements of retirement schemes"		
IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	SSAP 32		
IAS 28	Investments in Associates	SSAP 10		
IAS 29	Financial Reporting in Hyperinflationary Economies		On hold	
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions	HKMA Best Practice Guide		
IAS 31	Financial Reporting of Interests in Joint Ventures	SSAP 21		
IAS 32	Financial Instruments: Disclosure and Presentation		In discussion	
IAS 33	Earnings Per Share	SSAP 5		
IAS 34	Interim Financial Reporting	SSAP 25		
IAS 35	Discontinuing Operations	SSAP 33		
IAS 36	Impairment of Assets	SSAP 31		
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	SSAP 28		
IAS 38	Intangible Assets	SSAP 29		
IAS 39	Financial Instruments: Recognition and Measurement		In discussion	
AS 40	Investment Property		On hold	
IAS 41	Agriculture		On hold	

* pending guidance on hedging (IAS 32/IAS 39)