

Professional and Technical



News at a glance



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This is the Tenth 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@hksa.org.hk>).

This issue (and all back issues) is available online at the Society's website <<http://www.hksa.org.hk/professionaltechnical/techwatch/>>.

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@hksa.org.hk> or tel: 2287 7089.

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Accounting & Financial Reporting

FASC Releases An Invitation To Comment On The IASB's Exposure Draft ED 2, Share-Based Payment

The International Accounting Standards Board (IASB) has published for public comment an exposure draft, ED 2, "Share-Based Payment".

The proposals in the exposure draft reflect the following principles:

- ✓ When goods or other services are received in exchange for a share-based payment, an expense should be recognised;
- ✓ Recognition of the expense should be over the period in which the services involved are rendered or as the goods involved are received; and
- ✓ Measurement of the expense should be made by reference to fair value.

Under the HKSA's due process for setting accounting standards, the HKSA has issued an Invitation to Comment on the IASB's exposure draft with comments requested by 15 February 2003. The Invitation to Comment has been posted on the HKSA's website at <<http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/>> and a copy of the ED has been sent to HKSA members and others who are on the Members' Handbook (paper version) mailing list.

TECHWATCH

Following from the IASB's final approved Standard, the FASC intends to recommend the adoption of a new Hong Kong Statement of Standard Accounting Practice (SSAP) on share-based payments so that the SSAPs maintain conformity with the IASB's standards. The FASC does not intend to issue a specific Hong Kong exposure draft on the matters covered in the IASB's exposure draft.

FASC Proposes A New SSAP On Financial Reporting In Hyperinflationary Economies

The FASC has published an Exposure Draft of a New SSAP, Financial Reporting in Hyperinflationary Economies. Comments on this Exposure Draft are requested by 30 January 2003.

The Exposure Draft proposes to deal with the financial reporting of an entity whose functional currency is the currency of a hyperinflationary economy. This Exposure Draft is in all material respects verbatim with the equivalent International Accounting Standard, IAS 29, Financial Reporting in Hyperinflationary Economies, after taking into account the consequential amendments to IAS 29 proposed in the recent IASB's Exposure Draft, Improvements to IASs. Accordingly, the Exposure Draft proposes that the SSAP, when finalised, will maintain conformity with the IASB's latest standards.

The paper version of the Exposure Draft will be released towards the end of November 2002. A copy of the Exposure Draft and the FASC's Invitation to Comment have also been posted on the HKSA website at <<http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft>>.

HKSA Comment Letter On The IASB's ED Of Proposed Improvements To The International Accounting Standards On Financial Instruments

The HKSA has sent a comment letter to the IASB in response to the IASB's invitation to comment on its Exposure Draft of Proposed Improvements to the International Accounting Standards on Financial Instruments.

A copy of the comment letter has been posted on the HKSA website at <<http://www.hksa.org.hk/professionaltechnical/accounting/submissions/>>.

HKSA Comment Letter On The IASB's ED 1, First-Time Application Of International Financial Reporting Standards

The HKSA has sent a comment letter to the IASB in response to the IASB's invitation to comment on its Exposure Draft ED 1, First-Time Application of International Financial Reporting Standards.

A copy of the comment letter has been posted on the HKSA website at <<http://www.hksa.org.hk/professionaltechnical/accounting/submissions/>>.

FASC Meeting - 16 October 2002

The FASC met on 16 October 2002 and discussed the following items:

- ✓ IASB's Exposure Draft of Proposed Improvements to Financial Instruments Standards
- ✓ IASB's Exposure Draft of First-Time Application of International Financial Reporting Standards
- ✓ Share-based Payment - consideration of IASB's progress to date
- ✓ Proposed ED/SSAP 13, Investment Property (revised)
- ✓ Improvements to SSAPs - convergence with IAS

A copy of the meeting summary is attached to this issue of TechWatch. The meeting summary has also been posted on the HKSA website at: <<http://www.hksa.org.hk/professionaltechnical/accounting/fascupdate/>>.

Update On International Public Sector Accounting Standards

As part of its ongoing program to strengthen public sector financial reporting and contribute to increased transparency by governments worldwide, the International Federation of Accountants (IFAC) Public Sector Committee (PSC) has advanced its public sector standard

setting programme with the release of two new accrual-based International Public Sector Accounting Standards (IPSASs):

- ✓ IPSAS 19 - *Provisions, Contingent Liabilities and Contingent Assets*. This Standard defines provisions, contingent liabilities and contingent assets, sets out criteria for the recognition and disclosure of provisions, and rules for measuring those provisions. This Standard excludes from its scope provisions and contingent liabilities arising from social benefits such as age pensions, child benefits and disaster relief, which are being considered in detail by a separate PSC Steering Committee on Social Policy Obligations.
- ✓ IPSAS 20 - *Related Party Disclosures*. This Standard requires entities to disclose the existence of related party relationships where control exists, and information about transactions between the entity and its related parties that occur outside the normal supplier or client/recipient relationship. It also requires disclosure of certain transactions with key management personnel and their close family members.

The PSC announced that it has now completed the development of the core set of accrual based IPSASs. It has now issued 20 Standards and will be moving forward to develop IPSASs that address the public sector specific issues that have been identified in this first phase of its standard setting process. Work on a cash basis IPSAS is nearing completion and the PSC anticipates release of that Standard by the end of 2002.

The IPSASs are posted on the IFAC web site <<http://www.ifac.org>>. Visitors to IFAC's web site may download all International Public Sector Accounting Standards at no charge.

A list of IFAC PSC pronouncements currently in effect is attached to this issue of TechWatch. Updates on the IFAC PSC work programme are also available at the IFAC web site.

Audit & Assurance

Reporting By Auditors Under The SAE Framework

The Society has recently issued a Circular to Practising Members. This circular provides an overview of the Standards on Assurance Engagements (SAEs) Framework and seeks to clarify the distinctions between the SAEs Framework comprising SAEs 100 and 200 and the SASs (Audit) Framework comprising SASs 100 - 699. It also advises members on the progress that the Society has made so far in introducing the SAEs Framework to the regulatory bodies and government departments.

Up to now, the application of the SAEs Framework to regulatory reporting has been accepted by the Mandatory Provident Fund Schemes Authority, the Insurance Authority, the Innovation and Technology Commission, the Securities and Futures Commission, the Hong Kong Monetary Authority and the Telecommunications Authority.

The Circular includes example reports by auditors on various regulatory returns, including the Annual Return on Employees' Compensation Gross Premium and returns required from Innovation and Technology Fund (ITF) Recipient Organization on compliance with the terms and conditions of ITF funding.

The Circular is available for download at the Society's website <<http://www.hksa.org.hk/professional/assurance/circulars/SAEreporting.pdf>>.

Invitation To Comment On IAASB's Audit Risk Exposure Drafts

The IFAC International Auditing and Assurance Standards Board (IAASB) is seeking comments on the following Exposure Drafts:

- ✓ Proposed amendments to International Standard on Auditing (ISA) 200 "Objective and Principles Governing an Audit of Financial Statements"
- ✓ Proposed ISA "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements"

- ✓ Proposed ISA “The Auditor’s Procedures in Response to Assessed Risks”
- ✓ Proposed ISA “Audit Evidence”

In accordance with the HKSA’s ISA Convergence Due Process <<http://www.hksa.org.hk/professionaltechnical/assurance/dueprocess/techwatch5-1.pdf>>, the HKSA has issued an invitation to comment to solicit the views of members and interested parties on the IAASB’s exposure drafts in preparing the HKSA’s submission to the IAASB. The invitation to comment has been posted on the HKSA’s website at:<<http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/auditrisk.pdf>>.

The exposure drafts are the product of the Audit Risk Project, jointly conducted by the IAASB and the AICPA Auditing Standards Board.

The IAASB believes the proposed ISAs will improve audit quality as a result of better risk assessments and improved design and performance of audit procedures to respond to the risks, and improve linkage of audit procedures and assessed risks, resulting in a greater concentration of effort on areas where there is a greater risk of misstatement of the financial statements.

In summary, the proposed ISAs will impact the auditors’ work in four key ways:

- ✓ Auditors are required to obtain an enhanced understanding of the entity’s business;
- ✓ Auditors are required to make risk assessments in all cases in a more rigorous manner;
- ✓ Auditors are required to link the identified risks to audit procedures; and
- ✓ Auditors are required to document additional specific matters.

When approved, the proposed ISAs will replace certain existing ISAs that currently address the auditors’ required knowledge of business, internal control and audit risk assessments. The new proposed ISAs and expanded guidance are designed to enhance the auditors’ implementation of the audit risk model and

ultimately improve auditor performance.

Following from the IAASB’s final approved statements, the AASC intends to recommend the adoption of new Hong Kong statements so that Hong Kong Auditing Standards maintain conformity with IAASB’s Standards.

Members and interested parties are requested to submit their comments on the exposure drafts to the HKSA on or before **15 January 2003** so that their comments on the IAASB’s exposure drafts can be considered and included in the HKSA’s submission to the IAASB.

Invitation To Comment On IAASB’s Operations And Preface Exposure Draft

The IAASB is also seeking comments on

- ✓ Proposed Terms of Reference of the IAASB
- ✓ Proposed Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services
- ✓ Proposed Operations Policy Number 1 - Bold Type Lettering,

by issuing the three documents together as an exposure draft. These three documents are critical to the operations of the IAASB.

The HKSA has issued an invitation to comment to solicit the views of members and interested parties on the IAASB’s exposure draft in preparing the HKSA’s submission to the IAASB. The invitation to comment has been posted on the HKSA’s website at:<<http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/TOR.pdf>>.

Following from the IAASB’s final approved statements, the AASC intends to recommend the adoption of new Hong Kong statements so that Hong Kong Auditing Standards maintain conformity with IAASB’s Standards.

Members and interested parties are requested to submit their comments on the exposure draft to the HKSA on or before **31 December 2002** so that their comments on the IAASB’s exposure draft can be considered and included in the HKSA’s submission to the IAASB.

Listing & Securities Matters

HKSA Comments On HKEx Consultation Paper On Proposed Amendments To The Listing Rules Relating To Initial Listing And Continuing Listing Eligibility And Cancellation Of Listing Procedures

The HKSA has commented on the above Hong Kong Exchanges and Clearing Limited (HKEx) Consultation Paper in which HKEx reviewed the Main Board Listing Rules generally applicable to issuers of equity securities (but not debt securities) applying for listing or already listed on the Main Board, as well as mineral and infrastructure companies, and requested comments on the proposals to amend the Main Board Listing Rules in relation to the following:

- (a) initial listing eligibility criteria (Part B);
- (b) continuing listing eligibility criteria (Part C);
- (c) continuing obligations (Part D);
- (d) cancellation of listing procedures (Part E); and
- (e) disclosure requirements at the time of initial listing (Part F).

Due to strong public concern, Part C of the Consultation Paper on continuing listing eligibility criteria has been taken out by HKEx and will be subject to a separate consultation.

In relation to Part D of the Consultation Paper, the HKSA recommended that, in view of the growing complexity of financial reporting and corporate financial transactions, there should be a requirement for a mandatory appointment of a CFO at board level, with designated responsibility for the finance function. This was one of the recommended measures to improve corporate governance set out in the HKSA's "Report of the Working Group on Corporate Governance" which was published in December 1995.

The HKSA disagreed with the principles of the proposed delisting procedures in Part E of the Consultation Paper relating to insolvency and

corporate rescue. The HKSA's main concern was that under these proposed new procedures, a "non-compliant issuer" (an issuer which has been served with a winding up order by the court, or which has gone into receivership or provisional liquidation, or its principal subsidiaries have been served with a winding up order, or gone into receivership or provisional liquidation, such that the remaining business of the issuer is unable to meet all the initial listing eligibility criteria) would be given an opportunity to submit only one proposal within a short specified period of only 6 months to bring itself back to compliance with the continuing listing eligibility criteria. This was in contrast to the prevailing practice of allowing submissions of multiple proposals over an extended period of at least 18 months.

The submission has been posted at the HKSA's website at: <<http://www.hksa.org.hk/professionalttechnical/whatsnew/docs/021031.pdf>>.

IOSCO Issues Statements Of Principles On Auditors' Independence And Audit Oversight

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has issued three Statements of Principles to guide securities regulators in dealing with three critical areas necessary for investor confidence in securities markets:

- 1) Principles for Ongoing Disclosure and Material Development Reporting by Listed Entities;
- 2) Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor's Independence; and
- 3) Principles for Auditor Oversight.

The Principles describe essential features of regulatory systems requiring transparency and disclosure by listed entities; the independence of external auditors; and the oversight of the auditors.

The approval of these key Principles at the international level constitutes a specific response to some of the securities regulatory issues highlighted by the bankruptcy of Enron and

other high-profile business failures around the world.

The Technical Committee has not in the Statement number 2 attempted to prescribe comprehensive standards of auditor independence nor has it endorsed any particular existing set of auditor independence standards. The Committee notes, however, that the Code of Ethics for Professional Accountants of the International Federation of Accountants provides a useful analysis of potential threats to an auditor's independence under the headings of self-interest, self-review, advocacy, familiarity and intimidation.

The IFAC Code has been adopted in Hong Kong as the proposed HKSA Code of Ethics which is currently under consultation until 15 December 2002 and has been posted on the HKSA's website at: http://www.hksa.org.hk/professionaltechnical/ethics/exposedraft/code_of_ethics.pdf.

On Auditors' oversight, the Technical Committee believes that there is a growing consensus internationally on the benefits of an auditor oversight system that is not based exclusively or predominantly on self-regulation. The Statement identified a number of ways in which oversight of auditors can occur including within audit firms, by professional organizations and public or private sector oversight bodies, and through government oversight. It went on to propose that, within a jurisdiction, auditors should be subject to oversight by a body that acts and is seen to act in the public interest, and that to be effective, a mechanism should exist to require auditors to be subject to the discipline of an auditor oversight body that is independent of the audit profession, or, if a professional body acts as the oversight body, is overseen by an independent body.

The Statements of Principles have been posted on the HKSA's website at: <http://www.hksa.org.hk/professionaltechnical/whatsnew/whatsnew.php>.

Accountants In Business

A Good Reception For Accountants In Business (AIBs) Forum

There was an encouraging turnout at the half-day forum for accountants in business (AIBs) held on 9 November 2002. The forum, entitled "Accountants in Business Post-Enron - On a Mission to Reassure and Excel", aimed to take stock of the current position in Hong Kong in relation to the key issues of ethics, corporate governance and accounting standards; and to consider what, if anything, could be done from the perspective of AIBs to ensure that events similar to the damaging corporate collapses in the United States (e.g. Enron, WorldCom, Tyco) would not occur in Hong Kong.

The audience heard from an array of distinguished practitioners and guest speakers, starting with Mr. Brian Stevenson, HKSA Past President and currently non-executive director and audit committee member of HSBC, MTR Corporation, SFC and Ocean Park Corporation, who addressed the question of how accountants could add value to the role of independent non-executive directors. Mr. C.K. Low, Associate Professor in Chinese University of Hong Kong, then analysed lessons learnt from Enron and highlighted the principal provisions of the US Sarbanes-Oxley Act. He explained his view that it was not necessary for Hong Kong to introduce a similar piece of legislation.

Three panel sessions looked at difficult questions that face AIBs in Hong Kong in the increasingly challenging business environment. The panel on professional ethics and the business environment was chaired by Mr. C.K. Low and panellists were Mr. Guy Look, Executive Director & CFO of Sa Sa International Holdings Ltd., Mr. Peter Greenwood, Executive Director & Company Secretary of CLP Holdings Ltd. and Mr. Nicholas Allen, the partner-in-charge of the PricewaterhouseCoopers Hong Kong and China Audit Practice. The panel considered what the HKSA is doing in relation to professional ethics and what more should be done for AIBs; how conflicts between the dictates of business

expediency and personal and professional integrity can be resolved; the need for and efficacy of internal codes of conduct and codes of ethics issued by professional bodies; the question of on-going training for directors; and the image of accountants in business and whether it needs to be improved.

The panel on corporate governance was chaired by Mr. Brian Stevenson and panellists were Mr. Chew Fook Aun, CFO of Kerry Properties Ltd., Mr. Calvin Wong, Managing Director for Governance Services of Standard & Poor's and Mr. Peter Nixon, Managing Director of Potential Associates Ltd. and member of the HKSA Corporate Governance Committee. The panel exchanged views on the value to a company of good corporate governance - e.g. how it could increase investors' confidence to invest in the company and hence improve the company's ability to attract lower-cost capital; a rating agency's methodology to objectively measure and quantify corporate governance, plus some of the findings of its reviews; what HKSA is doing in relation to corporate governance; and the fundamental importance of personal and professional integrity to good corporate governance and how this includes the willingness to say "no".

The final panel of the morning addressed issues of accounting standards. The panel was chaired by Mr. Paul F. Winkelmann, Deputy Chairman of the Financial Accounting Standards Committee and panellists were Mr. P.M. Kam, Past President and Group Financial Controller of Jardine Matheson Ltd., Mr. Edward Chow, HKSA Vice President and Chairman of the China Infrastructure Group Holdings plc. and Mr. Paul Chan, Council member and Convenor of the GAAP for Small Businesses Working Group of HKSA. The panel discussed whether accounting standards were sufficiently relevant to business and considered, as specific examples, problems arising from IAS 17 and IAS 40 (accounting for leases and investment properties respectively) as well as issues relating to IAS 38 and SSAP 29 (accounting for intangible assets) and the

concerns of infrastructure companies. The panel stressed the importance of HKSA members making their voices heard at an early stage when exposure drafts are issued, citing the example of IAS 40 to show that with sufficient pressure it was possible to effect changes at the international level.

Paul Chan then introduced the Differential Reporting Framework proposed by HKSA, that is mainly aimed at financial reporting by SMEs, and the general response to the consultation paper issued in August 2002.

The forum was opened and closed by Edward Chow in his capacity as Chairman of the Financial Management Committee.

Members who did not attend the forum but wish to obtain speakers' handouts can purchase a set from the reception counter at the Society. Members who attended the forum will note that the materials distributed include a pink form seeking views on certain questions arising from the forum. You are invited to complete this form and fax it to Ms. Mary Lam, Assistant Director (Business and Practice) on 28656603/28656776.

Innovation & Technology

HKSA Becomes Founding Member Of International Innovation Network

HKSA has recently joined as a founding member of the International Innovation Network (IIN). The IIN was formed in July 2002 and its current membership comprises 18 national institutes from 17 countries in Europe, Asia Pacific and the Americas representing a significant proportion of the world's accountants.

The mission of the IIN is to provide:

- ◆ Leadership in developing and sharing ideas for innovative products and services for the benefit of the global accounting profession; and
- ◆ A vehicle for collaboration between network members to:

- Develop new commercial products and services; and
- Disseminate and market under a common brand Innovation Products for use by professional accountants in public practice, industry and government.

Through its membership of the IIN, HKSA aims to provide its members' access to a comprehensive range of innovative solutions that meet the changing needs of the accounting profession, the businesses they serve and the public interests they protect. To coordinate with this new development, the Society has formed a new Members Innovation and Technology Committee (MITC). The MITC will oversee the future development and delivery of innovative products and services through functional Executive Committees assigned with specific terms and references. A number of Executive Committees have already been formed covering IT training, market monitoring, Trust services, etc., and the number is expected to grow.

Existing members of the Information & Technology Committee, WebTrust Committee and the Information Technology Interest Group (ITIG) have been migrated to the new structure. At the same time, the Society has recruited a new Project Director (Innovation & Technology), Gary Wong, who is tasked with the overall coordination and support of the above activities of the MITC and IIN membership. Members who are interested in contributing to the above initiatives, or have any questions or suggestions are welcome to contact Gary Wong at (852) 2287-7233 or email gary@hksa.org.hk.

Corporate Governance

Results Of HKSA 2002 Best Corporate Governance Disclosure Awards Announced

The results of the Society's 2002 Best Corporate Governance Disclosure Awards (the "Awards") were announced at a press conference held on 14 November 2002 at the Conrad Hotel. The Awards presentation ceremony was conducted on 19 November 2002 in the Convention and

Exhibition Centre, at the Gala Dinner of the XVI World Congress of Accountants.

The press conference was attended by more than 30 media organisations and received wide media coverage. Speaking at the conference were the President and Chairman of the Panel of Judges of the Awards, Mr. Alvin Wong, Vice President and Chairman of the Corporate Governance Committee, Mr. David Sun, and Deputy Chairman of the Corporate Governance Committee and Chairman of the Awards Organising Committee, Prof. Judy Tsui. Representatives of several of the winning companies also attended and spoke about the efforts their companies had been making to develop a good corporate governance culture.

As regards the results, HSBC Holdings plc took the Diamond Award in the Hang Seng Index (HSI)-constituents category, CLP Holdings Ltd. won the Platinum Award, and Li & Fung Ltd. was the winner of the Gold Award. Swire Pacific Ltd. also received a Special Mention in this category.

Kerry Properties Ltd. won the Diamond Award in the non-HSI category, while Hsin Chong Construction Group Ltd. and Tai Fook Securities Group Ltd. took the Platinum and Gold Awards respectively.

The Airport Authority Hong Kong was the only award winner (Diamond Award) in the category of Public Sector/Not-for-profit Organisations.

This year a Significant Improvement Award was introduced to recognise the company that had taken the greatest strides towards improving its corporate governance disclosures and practices and had in place a sound basic framework of corporate governance, as reflected in its annual report. This award thus helped the Judges and Reviewers to focus on one of the main objectives of the Awards programme. The first winner of the Significant Improvement Award was Li & Fung Ltd.

Overall, the Judges found signs of general improvements in corporate governance disclosures and practices in Hong Kong with, for example, more companies and organisations including in their annual reports separate statements of corporate governance policy and

practice and more information being provided in relation to areas such as the number of board and committee meetings held and the average attendance of directors at those meetings. There are also greater number of independent non-executive directors involved on boards and committees and more board committees, including Remuneration Committees, are being formed.

The Judges also noted that in some instances the annual reports issued by family-owned businesses were reasonably comparable with those of some of the larger international companies in the extent and quality of disclosures.

Mr. Tsuguoki "Aki" Fujinuma, the outgoing president of the International Federation of Accountants, officiated at the Awards presentation ceremony and the attendees from the winning companies included Mr. Simon Penney, CFO of the Hongkong and Shanghai Banking Corporation Ltd., Mr. Andrew Brandler and Mr. Peter Tse, Group Managing Director and CEO and Executive Director & CFO respectively, of CLP Holdings Ltd., Dr. William Fung, Group Managing Director of Li & Fung Ltd., Mr Chew Fook Aun, CFO of Kerry Properties, Mr. V-nee Yeh, Chairman of Hsin Chong Construction Group Ltd., Mr. Peter Wong Shiu Hoi, Managing Director of Tai Fook Securities Group Ltd. and Mr. Raymond Lai, Finance Director of the Airport Authority Hong Kong.

For further commentaries and other details regarding the winning companies/organisations and the Judges' overall commentaries on the entrants, please refer to the Judges' Report which can be accessed on the HKSA website at <<http://www.hksa.org.hk/professionalttechnical/corporategov/index.php>>. The results announcement press release can also be accessed at the same web address.

Banking

HKMA Issues Guidelines On Financial Disclosure 2002

The Hong Kong Monetary Authority (HKMA)

issued the following updated guidelines on financial disclosure on 15 November 2002 with immediate effect:

- a. **Financial Disclosure by Locally Incorporated Authorized Institutions** <<http://www.info.gov.hk/hkma/eng/bank/spma/attach/FD-1.pdf>>

This guideline sets out the minimum disclosure standards which the HKMA expects Authorized Institutions (AIs) incorporated in Hong Kong to adopt in respect of information to be disclosed in their annual accounts.

- b. **Interim Financial Disclosure by Locally Incorporated Authorized Institutions** <<http://www.info.gov.hk/hkma/eng/bank/spma/attach/FD-2.pdf>>

This guideline sets out the minimum disclosure standards which the HKMA expects AIs incorporated in Hong Kong to adopt in respect of information to be disclosed in their Interim Financial Information Disclosure Statements.

- c. **Financial Disclosure by Overseas Incorporated Authorized Institutions** <<http://www.info.gov.hk/hkma/eng/bank/spma/attach/FD-3.pdf>>

This guideline sets out the minimum disclosure standards which the HKMA expects overseas incorporated AIs to adopt in respect of information to be disclosed on a half-yearly basis in their Key Financial Information Disclosure Statements.

The above guidelines supersede those of the same titles issued on 2 November 2001.

The key changes introduced by the 2002 Guidelines are to enhance disclosure in the areas of corporate governance, derivatives and hedging strategies and policies, breakdown of customer deposits by type, separate disclosure of gross fees and commission income and expenses, information on repossessed assets and operating assets by classes of business.

HKSA's 2003 Budget Proposals Submitted To The Financial Secretary

The Society has submitted its 2003 Budget Proposals ("Proposals") to the Financial Secretary under the title "Balancing the Equation - Achieving Fiscal Equilibrium and A Fairer Society", which may be accessed at <http://www.hksa.org.hk/whatsnew/budget_proposals2003.pdf>.

Given the large fiscal deficit, the weak state of Hong Kong's domestic economy and the uncertain state of the economies in many of Hong Kong's external markets, the Budget proposals stress the need to review critically the current level public expenditure. However, the extent to which public expenditure may be contained is limited by the need to avoid causing the economy to contract further. As improvements in the external economy are not expected to occur in the near future, reasonable and justifiable cost-cutting alone will not be sufficient to tackle the deficit and ways also need to be found to raise additional revenue. The Proposals suggest that it is necessary for the Government to be seen to be taking affirmative action to deal with the structural part of the escalating deficit if the international investor community is to maintain confidence in Hong Kong's economy and in the strength of the currency. The Proposals therefore suggest various options for (a) broadening the tax base and (b) increasing revenues under the existing tax base.

These include, under (a), considering the introduction of a broad-based consumption tax or goods and services tax (GST) at an appropriate time, and reducing the level of personal allowances, which have increased up to 50% since 1994 compared with the 10%-11% increase in the Composite Consumer Price Index over the same period.

As measures such as introducing a GST are likely to take some time to implement and can be regarded only as longer-term measures, there is a need also to consider more immediate remedies.

Under (b), possibilities include introducing a "Temporary Surcharge (TS)" to profits, salaries and property taxpayers for, say, a two-year period only, while maintaining the same standard rate of taxation. The advantage of such a measure is that it would make it clear that the increase was a "one-off" measure for a specific purpose and that in the long-term Hong Kong remains committed to maintaining low levels of taxation. If, however, the Government was to reduce personal allowances and deductions, the TS should not apply to taxpayers who are currently paying salaries tax at the progressive rates to avoid imposing a double burden on them. The submission notes that a TS of an additional 10% of the relevant tax liability, excluding progressive rate taxpayers, would raise around HK\$5.3 billion based on 2000-01 figures.

Other possible measures include increasing government rates and reviewing the level of government fees and charges in relation to "non-livelihood" services on the basis of the "user pays" principle.

A second part of the submission considers the need for some business and employment incentives. Notwithstanding the need to address the deficit, the Proposals suggest that there needs to be sufficient flexibility in the system to be able to introduce limited specific tax concessions aimed at easing the hardship of unemployment and enhancing Hong Kong's attraction to investors as an international financial centre and base for entry into the Mainland and other markets in the region. Measures that should be considered include:

- Provision for group relief, which is available in a number of developed tax jurisdictions, and other loss-related concessions.
- Granting a profits tax exemption to regional headquarters/offices in respect of management and consultancy income derived from associated entities overseas.
- Extending the existing profits tax exemption for overseas mutual fund corporations investing in Hong Kong to large reputable funds that may

not meet the existing tests of being widely-held and regulated by an acceptable overseas regulatory authority.

- Introducing a deduction for the cost of acquisition of trademarks and copyrights to encourage companies to set up intellectual property development and/or licensing centres in Hong Kong.
- More flexible treatment, i.e. in terms of the 50/50 apportionment tax concession, of processing agreements in the Mainland and other arrangements of a similar general nature and effect.
- Granting a 50% profits tax exemption for manufacturing in Hong Kong for a limited period to encourage the retention of a manufacturing base and provide greater employment opportunities, particularly amongst newly-arrived immigrants.
- Providing a tax concessions for the first and second year costs of employing persons who have been registered as unemployed for over one year.
- Increasing the present ceiling for allowable deductions for charitable donations from 10% to 20% of assessable profits/income.
- Increasing the tax deduction of 100% to 150% of the expenditure on scientific research currently allowed to approved institutions to encourage innovation and invention in Hong Kong.
- Granting tax incentives for investment and spending on environmental protection equipment, machinery or systems.
- Increasing the salaries tax deduction for self-education expenses from HK\$40,000 to HK\$60,000 to encourage taxpayers to attend approved courses, and allowing the expenditure to be carried forward for up to 3 years to enable students to benefit from the concession at a time when they may be more able to take advantage of it. Given the importance of life-long learning this should be an exception to any general reduction in personal allowances and deductions that may be implemented.

Annual Meeting Between HKSA And IRD Coming Up In Early 2003

Representatives of the Society will be holding the next regular annual meeting with the Commissioner of Inland Revenue in mid-January 2003 to discuss matters of common concern in relation to tax practice and procedure. Members of the Society have been invited to forward any suggestions for agenda items, together with an explanation of the issue, to John Tang, Assistant Director (Business and Practice) at <johntang@hksa.org.hk> by 16 December 2002. Please note, however, that the annual meeting focuses on matters of broader concern and it is generally not a suitable forum for taking up specific cases with the IRD.

Corporate Restructuring & Insolvency

Online Search Services For Bankruptcy And Compulsory Winding-up Records

As reported in TechWatch (Issue No. 9), on-line Government search services for, inter alia, bankruptcy and compulsory winding-up records, are now available under the ESDLife website at <http://www.esdlife.com/e_public/eng/default.asp>. There are two types of online search services for bankruptcy and compulsory winding-up records: (a) small requests of not more than 5 searches per submission; and (b) batch requests of not more than 100 searches each of the bankruptcy and compulsory winding-up records per submission. The fee for each search request is HK\$85.

In addition, creditors/debtors/bankrupts/directors can make online changes of their postal addresses registered with the Official Receiver's Office (ORO) free of charge.

Enquiries on the above online services with respect to bankruptcy and compulsory winding-up records should be directed to Mr. Billy Lam (at 2867 2434) or Mr. Steve Tsoi (at 2867 2446) of the ORO.

Comment Key Dates	
Date	Subject
15 December 2002	Exposure Draft of Proposed HKSA Code of Ethics, which has been posted on the HKSA website at: < http://www.hksa.org.hk/professionaltechnical/ethics/exposuredraft/code_of_ethics.pdf >.
16 December 2002	Suggestions for agenda items for the Annual Meeting between HKSA and IRD.
31 December 2002	<p>Invitation to Comment on IAASB's Operations and Preface Exposure Draft on</p> <ul style="list-style-type: none"> • Proposed Terms of Reference of the IAASB • Proposed Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services • Proposed Operations Policy Number 1 - Bold Type Lettering <p>The Invitation to Comment has been posted on the HKSA's website at: <http://www.hksa.org.hk/professionaltechnical/assurance/exposuredraft/TOR.pdf>.</p> <p>(IAASB deadline: 28 February 2003)</p>
15 January 2003	<p>Invitation to Comment on IAASB's Audit Risk Exposure Drafts:</p> <ul style="list-style-type: none"> • Proposed amendments to International Standard on Auditing (ISA) 200 "Objective and Principles Governing an Audit of Financial Statements" • Proposed ISA "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements" • Proposed ISA "The Auditor's Procedures in Response to Assessed Risks" • Proposed ISA "Audit Evidence" <p>The Invitation to Comment has been posted on the HKSA's website at: <http://www.hksa.org.hk/professionaltechnical/assurance/exposuredraft/auditrisk.pdf>.</p> <p>(IAASB deadline: 31 March 2003)</p>
30 January 2003	Exposure Draft (ED) of a Proposed SSAP, "Financial Reporting in Hyperinflationary Economies", which has been posted on the HKSA website at: < http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/ >.
15 February 2003	<p>Hong Kong Invitation to Comment on IASB Exposure Draft: ED2, "Share-Based Payment", which has been posted on the IASB website at: <http://www.iasb.org.uk/docs/ed02/ed02.pdf>. The ED is accompanied by the IASB's Basis for Conclusions <http://www.iasb.org.uk/docs/ed02/ed02-bc.pdf> and draft implementation guidance <http://www.iasb.org.uk/docs/ed02/ed02-ig.pdf>.</p> <p>(IASB deadline: 7 March 2003)</p> <p>The Invitation to Comment and a copy of the IASB's ED and accompanying documents have been posted on the HKSA website at: <http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/>.</p>
	Please send comments to < commentletters@hksa.org.hk >

Members Ask...

Disposal Of A Revalued Tangible Non-current Asset - Recognition Of Gain Or Loss

Q: A fixed asset that has been revalued under SSAP 17 has been disposed of during the year at a gain on cost, thus realising the revaluation surplus attributed to that asset.

Does the provision in SSAP 17 paragraph 41 allow the realised revaluation surplus to be recognised in the income statement, notwithstanding the fact that SSAP 17 paragraph 67 requires the gain on disposal on the fixed asset to be determined by the difference between the net sale proceeds and the carrying amount of the asset?

A: SSAP 17 paragraph 41 is an interesting paragraph. There have been arguments that this paragraph would permit a realised revaluation surplus to be recognised through the income statement. These arguments are summarised as follows:

- The first sentence permits, but does not require, a revaluation surplus to be transferred directly to retained earnings when the surplus is realised - that is, the gain that is represented by the realisation of revaluation surplus need not be recognised through the income statement.

Implicit in this sentence - by expressly permitting the transfer directly to retained earnings - is that this is not the course of action that might be contemplated initially... the treatment otherwise contemplated would have been to recognise the realised revaluation surplus through the income statement. On the basis of the first sentence to paragraph 41,

there have been arguments that recognition of the gain through the income statement might be permissible.

- The final sentence should be interpreted in the context of the first sentence - that is, when the option of transfer directly to retained earnings is exercised, the transfer is not effected through the income statement. There have been arguments that the last sentence does not therefore act to prohibit the recognition of the gain through the income statement if the option to transfer directly to retained earnings, as permitted by the first sentence, is not taken.

Although these arguments might seem reasonable on their own, they do not stand with the requirement in SSAP 17.67 which clearly specifies that gains or losses arising from the disposal of a fixed asset should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset. To recognise the revaluation surplus attributed to the asset disposed in the income statement would effectively alter the gain to be recognised in the income statement as being the difference between the net disposal proceeds and the cost (less any accumulated depreciation) of the asset. Accordingly, the argument that "the treatment otherwise contemplated in SSAP 17.41 would have been to recognise the realised revaluation surplus through the income statement" would not stand after taking into account the requirement in SSAP 17.67.

In conclusion, SSAP 17 requires that a revaluation surplus realised on the disposal of a fixed asset be transferred from revaluation reserve directly to retained earnings and not recognised as a gain in the income statement.

Please note that the answers above are given in accordance with the HKSA Staff Policy on Handling Technical Queries, which is available for reference on the HKSA website at <http://www.hksa.org.hk/professionaltechnical/policy/techqs.pdf>

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.

The HKSA Professional and Technical Department is headed by Ms. Winnie Cheung, Senior Director. Section heads of the Professional and Technical Department are:

Mr. Simon Riley, Deputy Director (Accounting)

Mr. Stephen Chan, Deputy Director (Assurance)

Mr. Peter Tisman, Deputy Director (Business & Practice)

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Comments may be submitted to HKSA by e-mail to commentletters@hksa.org.hk.

Appendices

Financial Accounting Standards Committee **Meeting summary - October 2002**

The Society's Financial Accounting Standards Committee (Committee) met on 16 October 2002 and discussed the following items:

- ✓ IASB's Exposure Draft of Proposed Improvements to Financial Instruments Standards
- ✓ IASB's Exposure Draft of First-Time Application of International Financial Reporting Standards
- ✓ Share-based Payment - consideration of IASB's progress to date
- ✓ Proposed ED/SSAP 13, Investment Property (revised)
- ✓ Improvements to SSAPs - convergence with IAS

IASB's Exposure Draft of Proposed Improvements to Financial Instruments Standards

The Committee considered a draft comment letter in response to the IASB's Exposure Draft of Proposed Improvements to Financial Instruments Standards that reflected the views of the Committee's Financial Instruments Working Group and the comment letters received from the following, in response to the Committee's Invitation to Comment on the IASB's exposure draft:

- ✓ Hong Kong Association of Banks
- ✓ Hong Kong Monetary Authority
- ✓ Hong Kong and Shanghai Banking Corporation Limited
- ✓ KPMG
- ✓ PricewaterhouseCoopers
- ✓ The DTC Association

The comment letters, which will be made available on the HKSA website, raised substantive points in relation to the proposals contained in the IASB's exposure draft.

The Committee finalised its consideration of a comment letter in response to the IASB's exposure draft and agreed to make the comment letter available on the HKSA website at <<http://www.hksa.org.hk/professionaltechnical/accounting/submissions/>>.

IASB's Exposure Draft of First-Time Application of International Financial Reporting Standards

The Committee considered comment letters received from the following, in response to the Committee's Invitation to Comment on the IASB's Exposure Draft of First-Time Application of International Financial Reporting Standards

- ✓ KPMG
- ✓ PricewaterhouseCoopers
- ✓ Hong Kong Monetary Authority
- ✓ Hong Kong Association of Banks

The comment letters, which will be made available on the HKSA website, raised substantive points in relation to the proposals contained in the IASB's exposure draft.

The Committee considered a draft comment letter in response to the IASB's exposure draft and agreed to finalise the letter prior to the IASB's 31 October deadline for comments. The Committee agreed that the finalised comment letter will be made available on the HKSA website at <<http://www.hksa.org.hk/professionaltechnical/accounting/submissions/>>.

Share-based Payment - consideration of IASB's progress to date

The Committee noted that the IASB is currently performing a fatal flaw review of its Exposure Draft, Share-based Payment, with a view to issuing it for comment at the beginning of November 2002. The Committee tentatively agreed in principle to issue an Invitation to Comment on the IASB's exposure draft when that is published.

Proposed ED/SSAP 13, Investment Property (revised)

The Committee noted the HKSA press release dated 4 October 2002 announcing Council's decision to defer issue of an exposure draft proposal to revise SSAP 13, Investment Property until Council has a better understanding of the IASB's proposals with regard to reporting fair value changes in the financial statements. The Committee also noted that representatives of HKSA had a meeting with representatives of the Real Estate Developers Association of Hong Kong (REDA) to follow up on the letter from the REDA raising concerns as regards the proposed revisions of the Hong Kong investment property standard based on IAS 40. A copy of the press release can be accessed at the HKSA website at: <http://www.hksa.org.hk/corporate_relations/media/pressrelease/021004e.php>. As indicated in the HKSA press release, the Committee will recommence consideration of an exposure draft proposing a revision to the investment property accounting standard once the IASB releases its exposure draft on reporting performance.

Improvements to SSAPs

The Committee noted that the IASB would likely finalise its proposals on Improvements to IASs in the first quarter of 2003. The Committee agreed to reactivate its project on convergence, which was aimed at bringing all SSAPs into line with IASs, and would proceed to consider those SSAPs where the IASB exposure draft on improvements does not propose a complete revision of the equivalent IASs at its next meeting.

Date of Next Meeting

The Committee's next meeting is scheduled to be held on 13 November 2002.

This meeting summary is provided for the information and convenience of those who wish to follow the Committee's deliberations. Except where indicated otherwise, all conclusions reported are tentative and may be changed at future meetings.

The IASB publishes summaries of its meetings and projects. These can be found on the IASB's website at <<http://www.iasb.org.uk>>.

The Committee welcomes comments on its technical agenda. Please e-mail us at <commentletters@hksa.org.hk>.

IFAC PSC Pronouncements, Studies And Occasional Papers

International Public Sector Accounting Standards

Glossary of Defined Terms

IPSAS 1 - Presentation of Financial Statements

IPSAS 2 - Cash Flow Statements

IPSAS 3 - Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies

IPSAS 4 - The Effects of Changes in Foreign Exchange Rates

IPSAS 5 - Borrowing Costs

IPSAS 6 - Consolidated Financial Statements and Accounting for Controlled Entities

IPSAS 7 - Accounting for Investments in Associates

IPSAS 8 - Financial Reporting of Interests in Joint Ventures

IPSAS 9 - Revenue from Exchange Transactions

IPSAS 10 - Financial Reporting in Hyperinflationary Economies

IPSAS 11 - Construction Contracts

IPSAS 12 - Inventories

IPSAS 13 - Leases

IPSAS 14 - Events After the Reporting Date

IPSAS 15 - Financial Instruments: Disclosure and Presentation

IPSAS 16 - Investment Property

IPSAS 17 - Property, Plant and Equipment

IPSAS 18 - Segment Reporting

IPSAS 19 - Provisions, Contingent Liabilities and Contingent Assets

IPSAS 20 - Related Party Disclosures

International Public Sector Studies

Study 1 - Financial Reporting by National Governments

Study 2 - Elements of the Financial Statements of National Governments

Study 3 - Auditing for Compliance with Authorities - A Public Sector Perspective

Study 4 - Using the Work of Other Auditors - A Public Sector Perspective

Study 5 - Definition and Recognition of Assets

Study 6 - Accounting for and Reporting Liabilities

Study 7 - Performance Reporting by Government Business Enterprises

Study 8 - The Government Financial Reporting Entity

Study 9 - Definition and Recognition of Revenues

Study 10 - Definition and Recognition of Expenses/Expenditures

Study 11 - Government Financial Reporting: Accounting Issues and Practices

Study 12 - Perspectives on Cost Accounting for Governments

Study 13 - Governance in the Public Sector

Study 14 - Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities

Occasional Papers

No. 1 - Implementing Accrual Accounting in Government: The New Zealand Experience

No. 2 - Auditing Whole of Government Financial Statements - The New Zealand Experience

No. 3 - Perspectives on Accrual Accounting

No. 4 - The Delegation of Public Services in France - An Original Method of Public Administration: Delegated Public Service

No. 5 - Resource Accounting: Framework of Accounting Standard Setting in the UK Central Government Sector