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This is the 20th 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 Stephen Chan, Technical Director (Ethics & Assurance) & Head of Standards & Technical Department Coordination at: < commentletters@hksa.org.hk >.

This issue and all back issues are available online at the HKSA Standards & Technical Department's website at: < http://www.hksa.org.hk/professionaltechnical/techwatch/ >.

Members have been informed by a circular dated 18 September 2003 that TechWatch has been incorporated into The Hong Kong Accountant, and will no longer appear in printed form as a publication in its own right. If you have previously elected to receive only the printed version of TechWatch, you will need to refer to The Hong Kong Accountant for future issues. Electronic version will be published on the HKSA website generally prior to publication in The Hong Kong Accountant. If you are currently not receiving the electronic edition of TechWatch but would like to receive it in future, you may choose to do so by entering this option online at the "Members Only" section of the HKSA web page under "Personal Profile – Publications Preferences". If you have any questions, please contact Karen Moy, Administrative Officer, Standards & Technical Department at: < karen_moy@hksa.org.hk > or Tel: 2287 7089.

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Financial Reporting

1. FASC Exposure Draft Of A Proposed SSAP, "Accounting And Reporting By Retirement Benefit Plans"

The FASC has issued for public comment an exposure draft (ED) of a proposed SSAP, "Accounting and Reporting by Retirement Benefit Plans".

The ED is based on IAS 26, "Accounting and Reporting by Retirement Benefit Plans", and includes an appendix that gives additional guidance on preparing financial statements of Mandatory Provident Fund Schemes and Occupational Retirement Schemes. The ED proposes to replace the existing Statement 2.302, "Financial Statements of Retirement Schemes".

The FASC has issued an Invitation to Comment on the ED with comments requested by 30 April 2004. The Invitation to Comment and ED have been posted on the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/rbp_I2C.pdf >.

2. FASC Invitation To Comment On IASB Exposure Draft: ED 6, "Exploration For And Evaluation Of Mineral Resources"

The International Accounting Standards Board (IASB) has published for public comment an exposure draft, ED 6, "Exploration for and Evaluation of Mineral Resources".

ED 6 proposes to exempt companies engaged in exploring for and evaluating mineral resources from certain requirements of IFRSs and the IASB Framework. Those companies would be permitted to continue using, under IFRSs, the accounting policies for recognising and measuring assets arising from mineral exploration and evaluation activities that were used in their most recent annual financial statements. A company that elects to use its previous accounting policies should then change those policies if, and only if, the change makes the financial statements more relevant and reliable. In addition, ED 6 proposes indicators to be considered when identifying whether exploration and evaluation assets might be impaired. It also proposes a "cash generating unit for exploration and evaluation assets" under IAS 36, "Impairment of Assets".

Under the HKSA's due process for setting financial reporting standards, the FASC has issued an Invitation to Comment on ED 6 with comments requested by 31 March 2004. The Invitation to Comment has been posted on the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/ >.

Following from the IASB's final approved Standard, the FASC intends to recommend the adoption of a comparable new Hong Kong Financial Reporting Standard (FRS), so that the FRSs 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.

3. FASC Invitation To Comment On IFRIC Draft Interpretations: D3, "Determining Whether An Arrangement Contains A Lease", And D4, "Decommissioning, Restoration And Environmental Rehabilitation Funds"

The International Financial Reporting Interpretations Committee (IFRIC) has published for public comment two Draft Interpretations: D3, "Determining Whether An Arrangement Contains A Lease", and D4, "Decommissioning, Restoration And Environmental Rehabilitation Funds".

IFRIC D3 would require arrangements that do not take the legal form of leases, but that have the substance of leases, to be accounted for in accordance with IAS 17, "Leases". The types of arrangements addressed include outsourcing arrangements; contracts to supply network capacity in the telecommunications industry; take-or-pay contracts (in which purchasers must make specified payments regardless of whether they take delivery of the contracted products or services; and service concession arrangements in which a supplier (usually a private entity) provides the use of an item of infrastructure to a purchaser (usually a government). The draft provides guidance on determining whether an arrangement is, or contains, a lease for the purpose of applying IAS 17, but it does not provide guidance on whether such leases should be classified as finance or operating leases.

IFRIC D4 would provide guidance where entities contribute to funds established to reimburse their decommissioning, restoration, or rehabilitation obligations when the costs are incurred. Such funds may be established by a single contributor to fund its own decommissioning obligations, or by multiple contributors to fund their joint decommissioning obligations. IFRIC proposes that the contributor determine whether it has control, joint control, or significant influence over the fund by reference to the standards dealing with subsidiaries, joint ventures, associates and special purpose entities. If it does, the contributor should account for its interest in the fund in accordance with those standards. If this does not apply, and the fund does not relieve the contributor of its obligation to pay decommissioning costs, the contributor should recognise a separate asset (for rights to reimbursement from the fund) and liability (to pay decommissioning costs).

Under the HKSA's due process for setting financial reporting standards and interpretations, the FASC has issued an Invitation to Comment on the draft Interpretations with comments requested by 5 March 2004. The Invitation to Comment has been posted on the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/ >.

Following from the IASB's final approved Interpretations, the FASC intends to recommend the adoption of new Hong Kong Interpretations so that, in accordance with its policy of convergence, the HKSA's Interpretations maintain conformity with the IASB's Interpretations. The FASC does not intend to issue any further specific Hong Kong exposure drafts on the matters covered in the IFRIC draft Interpretations.

4. FASC Meetings – November & December 2003

The FASC met on 12 November 2003 & 10 December 2003 and, at those meetings, discussed the following items:

- ✓ Investment Property – proposed revision of SSAP 13
- ✓ Real Estate Investment Trust – proposed Accounting Guideline
- ✓ Accounting and Reporting by Retirement Benefit Plans – proposed ED/SSAP 37 and replacement of Statement 2.302
- ✓ IASB Improvements Project
- ✓ Report from the Urgent Issues and Interpretations Sub-committee meeting held on 29 October 2003

Copies of the meeting summaries are attached to this issue of TechWatch. The summaries have also been posted on the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/accounting/fascupdate >.

5. Recent HKSA Press Releases

Recent HKSA press announcements on Proposed Public Sector Accounting and Financial Reporting Reforms and finalisation of the revised International Accounting Standards on financial instruments have been posted on the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/accounting/pressrelease >.

IFAC

6. HKSA's Submission On IFAC EDs Of Statements Of Membership Obligations

Seeking to clarify and strengthen its membership obligations and enhance the performance of accountants worldwide, the IFAC released last year exposure drafts of seven Statements of Membership Obligations (SMOs). These SMOs will help IFAC to assess three critical areas: the extent to which its member bodies are implementing IFAC standards and International Financial Reporting Standards; whether member bodies have the structures in place to ensure that their members are complying with these standards; and whether member bodies have appropriate investigative and disciplinary processes for their members.

The seven SMOs are on the following topics:

- Quality Assurance
- Auditing Standards and other International Auditing and Assurance Standards Board pronouncements
- Ethics Standards
- Education Standards
- Public Sector Accounting Standards
- Investigation and Discipline
- International Financial Reporting Standards

As a member body of the IFAC, the HKSA has made a submission on the proposed SMOs. The HKSA supports the introduction of the SMOs, which are intended to serve as the foundation for IFAC Membership. Our comments are largely focused on the obligations regarding quality assurance reviews and the investigation and disciplinary processes. The HKSA recognizes the need for accountancy bodies, as well as the IFAC, to establish a quality assurance review programme to monitor members' compliance with the high standards established by the IFAC and IASB and to have appropriate investigative and disciplinary processes in place.

The HKSA's submission is available at the HKSA's website at:
< http://www.hksa.org.hk/whatsnew/IFAC_ED_121203.pdf >.

Audit & Assurance

7. New SASs Adopting International Audit Risk Standards

The HKSA has issued three new Audit Risk SASs adopting the equivalent International Standards on Auditing (ISA):

- SAS 315 "Understanding the entity and its environment and assessing the risks of material misstatement"
- SAS 330 "The auditor's procedures in response to assessed risks"
- SAS 500 "Audit evidence"

In addition, SAS 100 "Objective and general principles governing an audit of financial statements" has been revised to adopt the conforming changes.

The new SASs 315 and 330 enable auditors to more clearly focus on areas where there is a greater risk of misstatement of the financial statements. It is anticipated that implementation of the new standards will increase the quality of audits by improving the linkage of audit procedures and assessed risks. In addition to other new requirements, the auditor is now required to:

- Perform audit procedures to obtain a broader understanding of the entity and its environment, including its internal control;

- Make assessments of the risks of material misstatements in all cases and perform more rigorous assessments; and

- Design and perform further audit procedures that are linked to the assessed risks.

The new SAS 500 provides additional guidance about the auditor's use of assertions and the qualitative aspects of audit evidence.

The new SASs 315, 330 and 500 and the conforming changes to SAS 100 are effective for audits of financial periods beginning on or after 15 December 2004. Early application is permissible.

The following four SASs continue to be in effect for financial periods beginning before 15 December 2004 and will be withdrawn when the new SASs 315, 330 and 500 come into effect:

- SAS 210 "Knowledge of the business"

- SAS 300 "Audit risk assessments and accounting and internal control systems"

- SAS 310 "Auditing in a computer information systems environment"

- SAS 400 "Audit evidence"

SASs are available at the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/assurance/index.php >.

8. <u>AASC Invitation To Comment On IAASB EDs Of Proposed Revisions To ISAs On Auditor's Report And Audit Of Group Financial Statements</u>

The International Auditing and Assurance Standards Board (IAASB) has issued for public consultation two Exposure Drafts:

(1) Proposed revised ISA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" and proposed conforming changes to ISAs

(2) Proposed revised ISA 600 "The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements" and proposed new International Auditing Practice Statement (IAPS) "The Audit of Group Financial Statements"

The ED of proposed revised ISA 700 proposes significant changes to the wording of the auditor's report on a complete set of general purpose financial statements and conforming changes to ISA 200 "Objective and General Principles Governing an Audit of Financial Statements", ISA 210 "Terms of Audit Engagements", ISA 560 "Subsequent Events", ISA 701 "Modifications to the Independent Auditor's Report" and ISA 800 "The Independent Auditor's Report on Special Purpose Audit Engagements".

The ED of proposed revised ISA 600 proposes significant changes which include: applying the new Audit Risk Standards to an audit of group financial statements; recognizing the differences that exist when the other auditor is related to the group auditor through a firm operating under common quality control policies; discussing the group auditor's responsibility to access relevant information; and providing guidance on determining the adequacy of the other auditor's work. The proposed new IAPS sets out practical assistance on how ISA 600, along with other ISAs, would be applied when the group auditor takes sole responsibility for the audit opinion on the group financial statements.

In accordance with the HKSA's ISA Convergence Due Process, the HKSA Auditing and Assurance Standards Committee (AASC) has issued an Invitation to Comment to request views of members and interested parties on the IAASB EDs by 6 March 2004 in preparing the HKSA's submission to the IAASB. The Invitation to Comment and the IAASB EDs have been posted on the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/assurance/exposuredraft/ISA700_600.pdf >.

Upon finalization of the IAASB EDs, the AASC intends to adopt them as local standards so that Hong Kong Auditing and Assurance Standards maintain conformity with current International Auditing and Assurance Standards at all times.

9. Audit Requirements For LegCo Election Financial Assistance Scheme

The Legislative Council Ordinance has been amended providing for a Financial Assistance Scheme for LegCo election candidates. The procedures for handling claims for financial assistance from LegCo election candidates are set out in "The Electoral Affairs Commission (Financial Assistance for Legislative Council Elections)(Application and Payment Procedure) Regulation" which was gazetted on 19 December 2003. The Regulation stipulates that a claim for financial assistance from a LegCo election candidate must be accompanied by an election return and an auditor's report.

The HKSA was consulted by the Electoral Affairs Commission (EAC) on the standard to be adopted by the auditor for this reporting engagement. The Regulation stipulates that the auditor should conduct the engagement in accordance with HKSA Standard on Assurance Engagements 200 "High level assurance engagements". The EAC will consult the HKSA in its preparation of the guidance notes for auditors conducting the engagement.

The EAC has issued a Press Release which can be accessed at:
< http://www.info.gov.hk/gia/general/200312/19/1219127.htm >.

10. CEPA – Certification Work By CPAs

In accordance with the CEPA, Hong Kong service suppliers can obtain certain preferential treatment provided they fulfil the definition of "Hong Kong Service Supplier" and related requirements stipulated in the CEPA.

CPAs is one of the two types of Designated Professionals who can certify supporting documents that need to be submitted to the Trade and Industry Department (TID) by an applicant for a Certificate of Hong Kong Service Supplier.

The certification work by CPAs include:

A. General documents that are applicable to most service sectors referred to in Appendix 5 to the TID's Notice to Service Suppliers No. 2/2003, which can be accessed at:
< http://www.tid.gov.hk/english/aboutus/tradecircular/hkss/2003/ntss022003_index.html >.

   1. Certified true copy of the valid Certificate of Incorporation (including Certificate(s) of Incorporation on Change of Name);

   2. Certified true copy of the valid Business Registration Certificate;

   3. Certified true copies of the annual Profits Tax Returns submitted to the Inland Revenue Department (IRD) and Notice of Assessment and Demand for Tax issued by the IRD in the past 3/5 years;

4. Written report certifying that more than 50% of the staff employed by the applicant for engaging in its substantive business operations in Hong Kong are residents staying in Hong Kong without limit of stay and people from the Mainland staying in Hong Kong on One Way Permit; and

5. Written report certifying that the business premises owned or rented by the applicant in Hong Kong is used in a way that is commensurate with the scope and the scale of its business, together with:

   a. certified true copy of the Computerized Land Register; or

   b. certified true copy of the valid lease.

B. Apart from the above, Appendix 5 to the TID's Notice also specifies certain supporting documents that are required for specific sectors which require certification by CPAs, such as a certified true copy of the valid Certificate of Registration of a Hospital, a written report certifying that a medical clinic has engaged in substantive business operations in Hong Kong for 3 years immediately prior to the date of issue of the written report, etc.

11. <u>MOF Issues Rules On Temporary Performance Of Audit Services Under CEPA</u>

The Ministry of Finance (MOF) of the People's Republic of China (PRC) has recently issued Supplementary Rules on the "Provisional Rules on Temporary Performance of Audit Services in the Mainland by Hong Kong, Macau and Taiwan's Accounting Firms" <港、澳、台地區會計師事務所來內地臨時執行審計業務的暫行規定>的補充規定 pursuant to the CEPA.

Under the provisions of the Law of the PRC on Certified Public Accountants (中華人民共和國註冊會計師法), non-PRC CPA practices (other than those who have set up a joint venture practice in the Mainland) performing audit-related services within Mainland China are required to apply for a provisional licence (the Licence) (臨時執行審計業務許可證) issued by the relevant authorities in the Mainland, i.e. the Accounting Regulatory Department of MOF for provisional cross-province licences (跨省臨時執行審計業務許可證) and the Finance Bureau of the relevant province if the audit-related service is to be performed in one province only (只需在一個省份臨時執行審計業務).

In connection with the liberalisation of trade in services under the CEPA, the HKSA has recently received from the MOF the Supplementary Rules announcing that with effect from 1 January 2004:

(i) the validity of the Licence is extended from six months to one year; and

(ii) the application fee for the Licence, which used to be US$200, is cancelled.

The relevant pronouncements and details of the procedures for the application of the Licence are available at the HKSA's website at:
< http://www.hksa.org.hk/china/reg-n-pro/pronouncements/applications.php >.

Ethics

12. <u>HKSA Secured A Representation On The IFAC Ethics Committee</u>

The HKSA has secured a representation on the IFAC Ethics Committee with the appointment of the Chairman of the HKSA Ethics Committee, Mr. Mark C. Fong, as a member for a term of three years starting from 1 January 2004. Mr. Stephen Chan, HKSA Technical Director (Ethics & Assurance) & Head of Standards & Technical Department Coordination is Mr. Fong's technical advisor for the IFAC Ethics Committee.

Messrs. Fong and Chan will attend the IFAC Ethics Committee meeting scheduled for 2 and 3 February. The major agenda item of the meeting is to consider the comments received on the IFAC ED of Proposed Revised Code of Ethics for Professional Accountants. The HKSA's submission on the IFAC ED is mentioned below.

13. HKSA Comments On IFAC ED Of Proposed Revised Code Of Ethics

The HKSA expressed general support in respect of the framework approach adopted in the proposed revised Code which establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. The proposed revised Code has been rewritten in a threats and safeguards style consistent with that used in the new section 8 "Independence for assurance engagements" of the Code issued in November 2001.

The HKSA's submission also made recommendations on a number of specific areas, including:

- the need to provide clear ethical requirements in respect of changes in a professional appointment, subject to any legal restrictions, for the outgoing auditors to respond to requests for information from the incoming auditors;

- the need to tighten up the requirements for professional accountants and their immediate close family members to receive gifts from clients;

- the need to reformat Part C on professional accountants in business so that the ethical principles are provided in the main body of Part C, to be supplemented by a separate section containing practical guidance on implementational issues and examples on the application of the principles to specific situations; and

- the need to have more specific, rather than generalized situational examples, in Part C.

The HKSA's submission is available at the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/ethics/submission/ED_IFAC_COE.pdf >.

Listing

14. HKSA Comments On Proposals To Enhance The Regulation Of Listing

The HKSA has submitted its comments on the Financial Services and the Treasury Bureau's consultation paper on proposals to enhance the regulation of listing ("the Consultation Paper"), which seeks comments on proposals for giving certain listing requirements statutory backing and ways to improve the regulatory structure governing the performance of the listing functions. The major issues under consultation were summarised in the November 2003 issue of TechWatch (Issue No. 18).

The following is a summary of the salient points of the HKSA's submission. The full content can be accessed at the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/corporategov/listing_regulation.pdf >.

A. Regulatory Structure Governing the Listing Functions

The HKSA believes that the key principles to consider are that the regulation of the securities markets in Hong Kong should be efficient, effective, transparent and accountable, and that there are adequate checks and balances in the system to ensure the integrity of the listing functions, including independence and freedom from conflicts, both actual and perceived. As such, any enhancements to the existing system that can provide a greater level of comfort in this respect to investors, issuers, and the domestic and international financial community generally, is worthy of consideration and support.

The HKSA has a large membership from diverse backgrounds and, on this issue, there is no one single view from amongst the representatives of these different sectors as to the most appropriate means of giving effect to the principle of independence, in the light of the four models of possible regulatory structures outlined in the Consultation Paper. The submission reflects the preferences expressed by the representatives from different sectors of our membership that have an interest in the issues under consultation, and the reasons for their views.

Members from the corporate finance sector consider that a combination of transferring the listing functions to a new subsidiary of Hong Kong Exchanges and Clearing Limited (HKEx) and expanding the "dual filing" system could achieve an acceptable level of independence, provided that the new HKEx subsidiary has a modus operandi that is fair, open and transparent (i.e. a combination of models B and D). They support this approach, inter alia, on the basis that:

- HKEx already has sufficient resources and transferring them to a subsidiary would enhance the "Chinese wall" arrangement by e.g. allocating a separate budget for these functions.

- It avoids the potential pitfall of over-regulation that could result from transferring the listing functions to a purely regulatory body, such as the Securities and Futures Commission (SFC), and thus avoids the concern that market innovation may be stifled.

- It builds on the recently-introduced dual filing system, which appears to be working smoothly.

- Generally, it builds on the existing system, which although imperfect in some respects, has served Hong Kong's markets reasonably well.

However, there is a concern amongst some members in business and commerce that independence and the market's perception of independence need to be enhanced. They believe that given the inherent conflicts in HKEx's position, retaining the listing functions with the HKEx set-up, albeit under a subsidiary, might not be adequate to address the concern. They share the view that, if statutory backing is given to the Listing Rules, it would be more appropriate for a statutory body to pursue and prosecute offences in relation to the Listing Rules, and thus the listing functions should be transferred to a statutory body. The HKSA Corporate Governance Committee (CGC) also considers that if Hong Kong were to start from a clean slate, the ideal arrangement might be for the listing functions to be separate from HKEx, i.e., these two groups favour either model A (transferring the listing functions to the SFC) or C (transferring the listing functions to an independent body).

It is considered that one way in which these differing views might be reconciled would be to look very closely at the composition of and selection arrangements for the Listing Committee under an HKEx subsidiary (i.e. to consider giving HKEx only a minority say in the selection).

B. Statutory Backing for the Listing Rules

The HKSA supports the principle of giving statutory backing to certain fundamental requirements in the Listing Rules. Connected transactions and directors' dealings, first and foremost, should be given statutory backing because these two areas are of most concern to minority shareholders and the public interest.

Given also the importance of information disclosure, members of the CGC are of the view that the principal disclosure requirements in the Listing Rules should also be given statutory backing, including disclosures in/in relation to:

- Financial statements and the management discussion and analysis
- Price sensitive or material events and information
- Prospectuses and other listing documents

Legislation & Government Initiatives

15. Companies Registry Issues New Circulars And Guidelines And Specifies New/Revised Forms

(i) *Change In Companies Registry's Practice Regarding Withdrawal Of Summonses Issued For Failure To File Annual Returns – Companies Registry External Circular No. 3/2003*

According to the Companies Registry External Circular No. 3/2003, with effect from 7 January 2004, the Companies Registry will no longer request the Court to withdraw a summons issued in respect of a failure to file an Annual Return under section 109 of the Companies Ordinance, where the company has filed the Annual Return prior to the hearing date of the summons. This change in practice is due to legal advice having been obtained to the effect that the filing of an Annual Return before the hearing date does not exonerate the company from the breach of its filing obligations under the provision, but is a mitigating factor which will be taken into consideration by the Court in imposing a penalty.

The Circular may be accessed at the Companies Registry's website at:
< http://www.info.gov.hk/cr/new/index.htm >, under "List of Circular". Any enquiries concerning the Circular should be directed to Ms. D.Y. Luk of the Companies Registry at 2867 4570.

(ii) *Companies (Amendment) Ordinance 2003 Comes Into Effect On 13 February 2004 – Companies Registry External Circular No. 1/2004*

According to the Companies Registry External Circular No. 1/2004, the Companies (Amendment) Ordinance 2003 will come into operation on 13 February 2004, except clause 67 (sections 158C(1)(a) and (b)) which will become operative at a later stage. Clause 67 expands the scope of the index of directors under the Companies Ordinance to cover any person who is nominated by a one-member/director company in general meeting to act in place of the sole member/director of the company upon the latter's death (i.e. a reserve director). The Amendment Ordinance may be accessed at the Government's website at:
<http://www.gld.gov.hk/cgi-bin/gld/egazette/gazettefiles.cgi?lang=e&year=2003&month=7&day=11&vol=07&no=28&gn=28&header=1&part=1&df=1&nt=s1&newfile=1&acurrentpage=12&agree=1&gaz_type=ls1>.

The main purpose of the amendments is to implement the first phase of the recommendations made in the Report of the Standing Committee on Company Law Reform (SCCLR) on the Recommendations of a Consultancy Report of the Review of the Companies Ordinance (see TechWatch Issues No. 3 and 9), which seek to enhance the protection of shareholders' rights, update the requirements regarding directorships, and make other improvements to the Companies Ordinance. It also introduces changes to the Companies Ordinance to, e.g. simplify filing requirements, and to facilitate electronic processing at the Companies Registry, in anticipation of the operation of its new information system, the Integrated Companies Registry Information System. The major changes brought about by the amendments are outlined in the Companies Registry External Circular 1/2004, which may be accessed at the Companies Registry's website at:
< http://www.info.gov.hk/cr/download/list/ec1-2004-e.pdf >. Any enquiries concerning the Circular should be directed to Ms. P.Y. Keung or Ms. D.Y. Luk of the Companies Registry at 2867 4562 and 2867 4570 respectively.

(iii) Registrar Of Companies Specifies New/Revised Companies Forms

In conjunction with the commencement of the Companies (Amendment) Ordinance 2003 (see (ii) above), a number of new or revised bilingual companies forms have been specified by the Registrar for use under the Companies Ordinance with effect from 13 February 2004. The Companies Registry has informed us that, as from 30 January 2004, CD-ROMs containing the whole set of specified forms are available for purchase at the price of $50 each at the Companies Registry on 14th floor, Queensway Government Offices, 66 Queensway, Hong Kong. Individual forms will be available for purchase at the above address and downloading from the Companies Registry's website at: < http://www.info.gov.hk/cr/ > ("Common Forms Used" section) from 13 February 2004 onwards. The new and revised forms were also published in the Government Gazette on 16 January 2004, as Government Notices (G.N.) 434-436, and may be viewed online at:
<http://www.gld.gov.hk/cgi-bin/gld/egazette/gazettefiles.cgi?lang=e&year=2004&month=1&day=16&vol=8&no=3&header=0&acurrentpage=10&df=0&agree=1&gaz_type=mg>.

(iv) Companies Registry Issues "Non-statutory Guidelines On Directors' Duties"

The Companies Registry has issued "Non-statutory Guidelines on Directors' Duties" outlining the general principles which a director should observe in the performance of his functions and exercise of his powers. The statements in these guidelines are principles only and are not intended to be exhaustive statements of the law. The guidelines may be accessed at the Companies Registry's website at: < http://www.info.gov.hk/cr/download/list/director_guide_e.pdf >.

16. HKSA Comments On Consultation Paper On Enduring Powers Of Attorney

The Enduring Powers of Attorney Ordinance ("the Ordinance"), which allows individuals to make advance provision for the management of their property and financial affairs in the event of their subsequent mental incapacity, came into effect on 1 July 1997. Since then, only three enduring powers of attorney ("EPA") have been registered, which contrasts starkly with the position in, e.g. England and Wales.

In a consultation paper issued by the Department of Justice ("DoJ") in November 2003, it was noted that the inclusion of the requirement that an EPA be executed in the presence of a medical practitioner (and a solicitor) differed from the approach adopted by most other common law jurisdictions that were examined, which might in part be responsible for the low take-up rate in Hong Kong. The DoJ has therefore proposed that the Ordinance be amended to remove the requirement that an EPA be executed in the presence of a medical practitioner, on the basis that it should be sufficient that the document is executed in the presence of the donor, the attorney and an independent solicitor.

Notwithstanding the DoJ's proposal, the HKSA considers that the requirement for certification by a solicitor and a medical practitioner of the donor's capacity to execute an EPA provides a better safeguard. This is consistent with the view expressed by the HKSA when the Government first consulted on introducing EPAs into Hong Kong 10 years ago. The HKSA's submission of 22 February 1994 is available at the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/power_attorney_proposal.pdf >.

However, in order to simplify the procedure, the HKSA has suggested in its submission on the DoJ's current consultation, dated 27 January 2004, that it should be adequate if a certificate as to the mental capacity of the donor is issued by a medical practitioner not more than, say, one week before the execution of the EPA in the presence of a solicitor (i.e. the two professionals should not both need to be present at the same time).

The HKSA's submission dated 27 January 2004 is available at the HKSA's website at:
< http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/consultation_power_attorney.pdf >.

Taxation

17. HKSA's 2004 Budget Proposals Submitted To Financial Secretary

The HKSA submitted its 2004 Budget Proposals ("Proposals") to the Financial Secretary in mid-December 2003 under the title, "**Evolution & Innovation – *Building Solid Foundations for the Future***", which stresses the need for new ideas and progressive evolutionary changes to ensure that the community is able to meet the considerable challenges ahead. The HKSA believes that every member of the community, as a stakeholder in Hong Kong's future, will appreciate the importance of striking a reasonable and achievable balance in respect of rights, expectations and responsibilities.

Given the increasing size of the gap between revenues and expenditure, the Proposals emphasize the need for the Government to make major efforts to contain public expenditure. The Proposals suggest that the Government should also be considering ways to raise more revenue and establish sources of revenue that are less susceptible to changes in the economic cycle. The Government should be more definite about a timeframe and procedure for implementing a goods and services tax (GST), which should include public consultation. Some suggestions for key basic design features of a GST are included in the Proposals and it is stated that, if a GST is introduced in the future, consideration should be given to reducing direct taxes at the same time.

It is also important to be examining ways in which to make the existing system a more efficient mechanism for revenue collection, by, for example, improving rates of compliance. The Proposals suggest that one measure that should be considered is a "tax amnesty", examples of which have proved quite successful in various other jurisdictions around the world.

Given the significant deterioration in Hong Kong's environment over the years, it is suggested that there is a good case for implementing a broader green tax policy, which would, inter alia, encourage greater awareness of the real economic costs of polluting activities.

While there is a need to address the deficit situation, the HKSA nevertheless considers that there needs to be enough flexibility in the system to be able to consider the merits of introducing limited specific tax concessions in order to maintain Hong Kong's competitive edge. These should be aimed at enhancing Hong Kong's appeal to investors as an international financial and commercial centre and as a springboard for entry into the Mainland and other markets in the region, and also directed at encouraging more employment. Various possible measures are included in the Proposals.

The document also makes reference to certain technical matters for improving Hong Kong's tax legislation and administration.

The Proposals, which may be accessed at the HKSA's website at:
< http://www.hksa.org.hk/whatsnew/budget_proposal_2004_2005.pdf >, comprise six parts under the following headings:

A) Building Solid Foundations
B) More Immediate Options for Revenue-raising
C) Improving Hong Kong's Competitive Edge
D) Community Measures to Provide Assistance and Improve the Quality of Life
E) Streamlining and Improving the Tax Regime
F) Government Fees and Charges and Costs

A summary of the Proposals is set out in section 1.4 of the document.

18. Annual Meeting Between HKSA And IRD Held In January 2004

As reported in TechWatch (Issue No. 18), representatives of the HKSA proceeded to meet the Commissioner of Inland Revenue (CIR) and members of her staff in January 2004.

The minutes of the Annual Meeting 2004 are being finalised and the intention is that once they have been agreed, as in previous years, they will be published as a Tax Bulletin. The previous years' bulletins can be accessed at the HKSA's website at: < http://www.hksa.org.hk/publications/bulletins/index.php > under "Tax".

One of the issues raised at the Annual Meeting was a request from the HKSA to be able to release information on some of the more urgent matters prior to the publication of the Tax Bulletin, as was done last year. In this connection, we are now able to inform members that the CIR has confirmed that the deadlines for lodging tax returns for the year of assessment 2003/04 under the block extension scheme will remain the same as for the 2002/03 year of assessment. However, as 15 August 2004 falls on a Sunday, the filing due date for 2003/04 "D" code returns will be 16 August 2004.

At the request of the HKSA, the CIR agreed to consider extending the due date for filing "M" Code loss cases for the year 2002/03, in view of the fact that the Chinese New Year holiday fell early during the current calendar year. As we have informed members through an e-circular and the "What's New" section of the HKSA's website, the Inland Revenue Department (IRD) subsequently confirmed that the due date for these returns would be extended until 14 February 2004. The IRD has announced the arrangement under the "What's New" section of its website at: < http://www.ird.gov.hk >.

This year, again, the CIR raised the issue of discrepancies detected during field audits with a view to highlighting areas where, in the IRD's view, particular care should be exercised in the audit process and in the preparation of tax computations. Areas to which the CIR drew attention included understatements of sales, overstatements of purchases and technical adjustments. In the case of technical adjustments, the CIR wished to issue a reminder that penalties might be imposed in cases where it was clear that appropriate adjustments should have been made but had not been.

19. Inland Revenue Board Of Review Invites Nominations Of New Members

The Inland Revenue Board of Review has recently invited nominations from the HKSA for membership of the Board. Interested persons should have a minimum of 10 years' experience in the accounting profession. The invitation for nominations also states that, although preference will be given to applicants having a professional background with a close affiliation to the workings of the Inland Revenue Ordinance, applicants should not be involved in the provision of tax services in their daily work, so as to avoid possible conflict of interests.

The Board of Review is an independent statutory body constituted under section 65 of the Inland Revenue Ordinance to determine tax appeals. The Board consists of a Chairman and 10 Deputy Chairmen and not more than 150 other members, all of whom shall be appointed by the Chief Executive on an individual basis. The relevant statutory provisions governing the operations of the Board are contained in sections 4 and 65 to 69 of the Inland Revenue Ordinance.

An HKSA circular containing more information about the Board was issued to all member firms. The circular invited interested parties to forward any nominations by 30 January 2004, together with the proposed nominee's completed curriculum vitae (a copy of a blank curriculum vitae may be downloaded at: < http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/curriculum_vitae.pdf >) and the name and contact details of the firm for which the nominee is working, to Mr. John Tang, Assistant Director (Business Members & Specialist Practices). The Board has asked to receive nominations by early February 2004.

According to the Board Secretariat, successful candidates should receive an appointment letter from the Board in June 2004 and their appointment will be for three years commencing 1 July 2004.

Innovation & Technology

20. HKSA Executive Programme "Executive Certificate In IT Risk Management For Accountants" Gains CEF Status

The "Executive Certificate in IT Risk Management for Accountants" training course, which is offered by the HKSA in collaboration with Hewlett Packard and HKU SPACE, has received the Government's recognition as a reimbursable course under the Continuing Education Fund (CEF). This would mean that members can now apply for reimbursement of up to 80% of the course fee with a maximum of $10,000 from CEF, upon completion of the full course and meeting the CEF criteria.

Members are encouraged to take advantage of the early bird and group discount of up to 15% in total. The cost for completing this 8 days training and project work will be as low as $3,600 for HKSA members and $7,000 for non-members. 50 CPD hours will be awarded for the course.

Details and brochure of the training course can be viewed and downloaded at:
< http://www.hksa.org.hk/professionaltechnical/IT_training/ITRisk_Master%202909.pdf >.

Further information on the eligibility and the procedures and deadline for applying for the CEF assistance can be located at: < http://www.info.gov.hk/sfaa/cef/intro.htm >.

Comment Key Dates

Date	**Subject**
14 February 2004	Exposure Draft of PN 1014 "Reporting by Auditors on Compliance with International Financial Reporting Standards", which has been posted on the HKSA's website at: <http://www.hksa.org.hk/professionaltechnical/assurance/exposuredraft/ed-pn1014_cover.pdf>.
5 March 2004	FASC Invitation to Comment on IFRIC Draft Interpretations: D3, "Determining Whether An Arrangement Contains A Lease", and D4, "Decommissioning, Restoration And Environmental Rehabilitation Funds", which have been posted on the IASB website at: < http://www.iasb.org.uk >. The FASC Invitation to Comment has been posted on the HKSA's website at: < http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/ >. [IASB deadline: 19 March 2004]
6 March 2004	AASC Invitation to Comment on IAASB Exposure Drafts of Proposed revised ISA 700 on the Auditor's Report and proposed revised ISA 600 on the Audit of Group Financial Statements, which has been posted on the HKSA's website at: <http://www.hksa.org.hk/professionaltechnical/assurance/exposuredraft/ISA700_600.pdf>. [IAASB deadline: 31 March 2004]

Date	**Subject**
15 March 2004	HKSA Exposure Drafts of Revised Statements 1.400 and 1.401 on "Practice Review", which have been posted on the HKSA's website at: < http://www.hksa.org.hk/professionalcompliance/practice_reviews/content.php#6 >.
31 March 2004	FASC Invitation to Comment on IASB Exposure Draft: ED 6, "Exploration for and Evaluation of Mineral Resources", which has been posted on the IASB website at: < http://www.iasb.org.uk >. The ED is accompanied by the IASB's Basis for Conclusions. The FASC Invitation to Comment has been posted on the HKSA's website at: < http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/ >. [IASB deadline: 16 April 2004]
30 April 2004	FASC Exposure Draft of a Proposed SSAP, "Accounting and Reporting by Retirement Benefit Plans", which has been posted on the HKSA's website at: < http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/ >.
Please send comments to < commentletters@hksa.org.hk >	

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Appendices

(i) FASC Meeting Summary – November 2003

The HKSA Financial Accounting Standards Committee (Committee) met on 12 November 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Carlson Tong (Deputy Chairman), Paul F. Winkelmann (Deputy Chairman), William Crowe, Tommy Fung, Robert Gibson, Philip Hilliard, Andrew Huke, Quinn Y.K. Law, Nigel Reid, Tommy Tam, Tom Wu, Ms. Olivia Cheung, Ms. Susanna Lau and Mr. Simon Riley (HKSA Deputy Director, Accounting).

The Committee discussed the following items:

- ✓ Investment Property – proposed revision of SSAP 13
- ✓ IASB Improvements Project
- ✓ Report from the Urgent Issues and Interpretations Sub-committee meeting held on 29 October 2003

Investment Property – proposed revision of SSAP 13

The Committee further considered the draft proposed revision to SSAP 13. The draft ED is based on IAS 40 but proposes to retain the current SSAP 13 requirements for:

- The use of a qualified independent valuer (not mandatory in IAS 40); and

- Reserve accounting of value changes on a portfolio basis (in IAS 40, changes in fair value are reported in the income statement).

The Committee noted that the IASB is presently engaged in a project that would propose to overhaul the nature and format of the income statement, partly in recognition that the present format does not fully accommodate the fair value model. Changes in fair value are included with other items comprising net profit or loss for the period and some consider that this does not provide an appropriate analysis of the entity's financial performance for a given period. The Committee agreed in principle that as much of SSAP 13 as possible will be converged with IAS 40 but that the provisions regarding changes in fair value, as currently applying in SSAP 13, would be retained until the IASB's project on reporting financial performance had been finalised. As a consequence, the impending ED would propose that changes in the value of investment properties should be treated as movements in an investment property revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the amount by which the deficit exceeds the total amount in the investment property revaluation reserve should be charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus should be credited to the income statement to the extent of the deficit previously charged.

Because the draft ED would propose to retain the status quo in respect of changes in fair value, the treatment of transfers between categories of assets under the revised SSAP 13 will necessarily differ to that under IAS 40. The Committee confirmed its previous conclusions on this matter:

- For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting under SSAP 17 or SSAP 22 should be its fair value at the date of change in use.

  Any difference between the fair value of the property at the date of change in use and its previous carrying amount should initially be recognised in accordance with the SSAP 13 provisions on reserve accounting described above and:

(a) If the investment property revaluation reserve is in surplus on a portfolio basis but the fair value of the transferred property at the date of change in use is less than its cost, the difference between the property's fair value at that date and its cost should be included in net profit or loss for the period;

(b) If the fair value of the transferred property at the date of change in use is greater than its cost, any revaluation surplus in respect of the transferred property shall not be available for portfolio accounting under the reserve accounting provisions described above. Consistent with the current treatment under SSAP 13, any investment property revaluation surplus realised on disposal would be recycled through the income statement. Subsequent to the date of change in use the asset may be depreciated, written down to net realisable value and/or impaired and, under the applicable SSAP (e.g. SSAP 17, SSAP 22 or SSAP 31), such an event will give rise to an expense. However, the Committee agreed that part of the (investment property) revaluation surplus attributed to the asset could be treated as being realised at that time and taken to the income statement as a credit that should not be netted off against the depreciation charge or impairment expense. Any subsequent reversal of an impairment loss (including write-down to net realisable value) for a transferred property would be accounted for under the applicable SSAP (e.g. SSAP 17 or SSAP 22) and not be accounted for under SSAP 13. Disclosure of the cumulative amount of the investment property revaluation reserve not available for portfolio accounting under SSAP 13 would be required.

- For a transfer from inventories to investment property that will be carried at fair value, the property's cost for subsequent accounting under SSAP 13 should be the lower of cost and net realisable value (as measured under SSAP 22) at the date of change in use. Where the fair value of the property at that date exceeds its previous carrying amount, the difference should be recognised in accordance with the SSAP 13 provisions on reserve accounting described above.

- When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, the property's cost for subsequent accounting under SSAP 13 should be the carrying amount at the date of change in use. Where the fair value of the property at that date exceeds its previous carrying amount, the difference should be recognised in accordance with the SSAP 13 provisions on reserve accounting described above.

The Committee considered that the above approach was consistent with the requirements currently applying under SSAP 17 and would also provide further guidance on the treatment of the investment property revaluation reserve upon transfer not presently dealt with in SSAP 17. The Committee also considered that:

- A revaluation surplus that arose when the asset was classified as investment property would continue to be accounted for under SSAP 13 even though the asset itself, post-transfer, is accounted for under a different SSAP; and

- Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the cost of the asset and, together with any revaluation surplus (attributed to that asset) realised on disposal, should generally be reported in the income statement.

The Committee briefly discussed the current requirement in SSAP 13 (paragraph 9) whereby investment properties are not subject to periodic charges for depreciation except where the unexpired term of the lease is 20 years or less, in which case depreciation must be provided on the then carrying amount over the remaining term of the lease. The current version of the draft ED does not carry forward this provision. A Committee member commented that by not carrying forward the current SSAP 13 '20 year rule' there could be a potential anomaly:

- The diminution in value of a leasehold property that is near the end of its lease will be offset against the Investment Property Revaluation Reserve until such time as the lease expires. At that point the original cost of the property will be expensed to the income statement in a single period and this has the potential to distort reported results for a period;

- Carrying forward paragraph 9 keeps the status quo consistent with the approach on certain other provisions in SSAP 13 and would avoid increasing the differences between IAS 40 and SSAP 13 (revised): The reduction in investment property value in the last 20 years of its lease will be expensed to the income statement under both IAS 40 and SSAP 13 if paragraph 9 were carried forward.

The Committee considered that the issue would be relatively short-term in nature and noted that there would be a further opportunity to discuss this issue when the Committee considers the draft Invitation to Comment on the ED. Whether the 20 year rule was carried forward or not, the Invitation to Comment would need to discuss the issues involved either by way of explaining the significant differences between the present SSAP 13 and the proposed revised version or by discussing the areas where the proposed revision of SSAP 13 would retain provisions that are not converged with IAS 40.

The Committee agreed that the ED would not be released for public comment until after the IASB had finalised pending changes to IAS 17 on Leases and IAS 40 on Investment Property. The Committee noted that the IASB had signalled an intention to finalise IAS 17 and IAS 40 by the end of the first quarter in 2004 and, if the IASB holds to this timetable, the Committee anticipated being able to release an ED for public comment during the second quarter of 2004 with the target of finalising the revised SSAP 13 to become applicable for financial statements covering periods beginning on or after 1 January 2005.

<u>IASB Improvements Project</u>

The Committee noted that the IASB had begun to publish "provisional final" versions of revised IAS (as at the Committee's meeting date IAS 2, Inventories, IAS 10, Events After the Balance Sheet Date, and IAS 33, Earnings Per Share, have been published in 'provisional final' form) resulting from the Improvements ED released for comment in 2002 and that copies of the IASB Standards could be obtained by subscription from the IASB website.

As indicated in the Committee's Invitation to Comment on the IASB ED, once the IASB had finalised publication of all revised IAS resulting from the Improvements ED the Committee intends to recommend the adoption of revised SSAPs, so that the SSAPs maintain conformity with the IASB's Standards. The Committee also intends at the same time to develop an exposure draft proposing the convergence of Hong Kong SSAPs with International Financial Reporting Standards and the elimination of significant textual differences in SSAPs not revised from the Improvements Project vis-à-vis the equivalent IAS.

<u>Report from the Urgent Issues and Interpretations Sub-committee meeting held on 29 October 2003</u>

The Urgent Issues and Interpretations Sub-Committee had recently discussed the following topics:

✓ The allocation of cost of transport infrastructure facilities
✓ Hotel property accounting
✓ Share issue costs

The allocation of cost of transport infrastructure facilities

An entity may enter into an agreement with a government to construct an infrastructure asset on a "Build, Operate and Transfer" franchise (the "BOT"). Under the BOT, the entity has the right to build and operate the infrastructure asset (for example, a toll road/tunnel) on a commercial basis for a finite period of time (for example, 30 years) prior to handing that asset back to the government at nil consideration. During the franchise period, the entity is often the owner of the infrastructure asset and is allowed to earn a reasonable return through collection of fees from the users of the infrastructure asset.

The Committee discussed the appropriate accounting treatment for allocating the cost of the infrastructure asset across the franchise period.

Under paragraph 96 of Statement 2.01 “Framework for the Preparation and Presentation of Financial Statements”, the allocation methods of depreciation / amortisation are intended to recognise expenses in the accounting periods in which the economic benefits associated with these items are consumed or expire. As further elaborated in SSAP 17 and SSAP 29, the selection of depreciation / amortisation method should reflect the expected pattern of consumption of economic benefits from the assets. The Committee noted the 2 broad schools of thought on the meaning of “consumption of economic benefits” of an infrastructure asset: a time based view and a usage based view. Supporters of the time-based view argue for the component approach and primarily straight-line depreciation method, as they consider the passage of time determines the consumption of economic benefits for most components of toll roads. Supporters of the usage-based view argue for the integral asset approach and units-of-usage depreciation method, as they consider the usage or traffic flow determines the consumption of economic benefits for entire toll roads. As the phrase “consumption of economic benefits” is currently subject to debate, the Committee does not rule out either of the two views before obtaining clarification from IFRIC.

The Committee noted that some financial statements purporting to be in compliance with Hong Kong SSAPs disclosed an accounting policy that the allocation of the capital cost of an infrastructural asset was allocated by applying a sinking fund method whereby the aggregate annual depreciation amounts, compounded at certain rates of return, up to the expiry of the toll road concession periods, will be equal to the total cost of the asset.

The Committee agreed that a sinking fund method is not an appropriate method of depreciating or amortising infrastructure assets, regardless of whether the asset (or components thereof) is classified as property, plant and equipment, intangible assets or operating lease prepayments. By definition, the sinking fund method neither supports the view that consumption of economic benefits of a BOT franchise is determined by either the passage of time and/or usage.

In the case of an infrastructural asset accounted for under SSAP 17, the Committee noted that that SSAP requires the depreciable amount of an item of property, plant and equipment to be allocated on a systematic basis over its estimated useful life. Under paragraph 49 of SSAP 17, the depreciation methods include the straight-line method, the diminishing balance method and the sum-of-the-units method. The depreciation method on toll roads shall be selected based on the expected pattern of consumption of economic benefits. When accounted for as an intangible asset, SSAP 29 paragraph 89 states that there is rarely, if ever, be persuasive evidence to support an amortisation method for intangible assets that results in a lower amount of accumulated amortisation than under straight-line method.

Hotel property accounting

An interpretational issue had been referred to the sub-committee in respect of the appropriate accounting standard, and financial statement presentation, for owner-occupied hotel properties. The Committee acknowledged that under present SSAPs hotel property could be accounted for either as investment property or as property, plant and equipment depending on the circumstances relevant to a specific property. A hotel property must be accounted for under either SSAP 13 or SSAP 17 and therefore may not be presented in financial statements in a category other than either investment property or property, plant and equipment. The Committee considered that when SSAP 13 is revised to more closely align that SSAP with the equivalent IAS 40, the issue regarding appropriate classification of (particularly owner-occupied) hotel property would be clarified. The Committee considered that, after the revision of SSAP 13 to more closely align with IAS, all owner-occupied hotel property would be property, plant and equipment and therefore should be accounted for under SSAP 17 and depreciated accordingly.

Share issue costs

The Committee noted that the International Interpretation SIC-17 on "Costs of an Equity Transaction" had not been adopted in Hong Kong primarily because SIC-17 was an interpretation of IAS 32 and that there was no comparable SSAP applying in Hong Kong. By virtue of SSAP 1 paragraph 23, however, the consensus in SIC-17 would be applied to determine the appropriate treatment for share issue expenses.

Date of Next Meeting

The Committee will next meet on 10 December 2003.

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 >.

(ii) FASC Meeting Summary – December 2003

The HKSA Financial Accounting Standards Committee (Committee) met on 10 December 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Paul F. Winkelmann (Deputy Chairman), Chan Lok Sang, Edward K.F. Chow, Choy Chung-foo (represented by Mr. Vingle Yuen), William Crowe, Raphael Ding, Tommy Fung, Robert Gibson, Andrew Huke, Quinn Y.K. Law, Tommy Tam, Stephen Taylor, Tom Wu, Prof. Woody Wu, Ms. Olivia Cheung, Ms. Susanna Lau and Mr. Simon Riley (HKSA Deputy Director, Accounting).

The following items were on the Committee's agenda:

- ✓ Investment Property – proposed revision of SSAP 13
- ✓ Real Estate Investment Trust – proposed Accounting Guideline
- ✓ Accounting and Reporting by Retirement Benefit Plans – proposed ED/SSAP 37 and replacement of Statement 2.302
- ✓ IASB Improvements Project

Investment Property – proposed revision of SSAP 13

The Committee agreed to a minor redrafting of the provisions concerning the transfers between categories of asset, consistent with decisions made at the Committee's previous meeting. The Committee agreed that proposals to revise the transfers provisions presently appearing in SSAP 17 would be dealt with separately as part of the impending project to converge Hong Kong SSAPs with the IASB's Standards. The Committee also considered the current SSAP 13 provisions requiring an investment property held under a lease with an unexpired term of 20 years or less to be depreciated and agreed that, in the exposure draft, there should be a proposal to replace this with a requirement to apply an impairment test.

Real Estate Investment Trust – proposed Accounting Guideline

The Committee considered an initial draft version of a proposed Accounting Guideline for financial reporting by unit trusts modelled after the UK Statement of Recommended Practice. The Committee agreed that an ad-hoc sub-committee be established to review the proposed guidance for application in Hong Kong.

Accounting and Reporting by Retirement Benefit Plans – proposed ED/SSAP 37 and replacement of Statement 2.302

The Committee agreed to seek comments from the HKSA Expert Panel on Insurance before releasing for public comment ED/SSAP 37, which proposes convergence with IAS 26 on accounting and reporting by retirement benefit plans.

IASB Improvements Project

The Committee confirmed its intention that the recently finalised revised International Accounting Standards resulting from the IASB's improvements exposure draft be issued as revised Hong Kong Statements of Standard Accounting Practice as soon as possible. A document outlining the significant differences between the previous SSAPs and the revised documents will be developed and reviewed by the Committee. The Committee agreed that the SSAP on joint ventures will be reviewed separately as part of the impending exposure draft that proposes convergence of SSAPs with those IASs not revised and reissued in full as a result of the IASB's improvements project. Certain IASB Interpretations that had previously been written directly into a SSAP, but for which the IASB are retaining the Interpretation as a separate document, will be uplifted from the SSAP and reissued as a separate Interpretation. The

Committee also agreed to renumber the existing SSAPs so that the numbering conformed to the equivalent IAS. For example, SSAP 22 on inventories (equivalent to IAS 2) would be renumbered to SSAP 2.

2004 meeting dates

The Committee agreed to meet on the following dates in 2004:

14 January
11 February
10 March
14 April
12 May
16 June
14 July
15 September
13 October
10 November
15 December

Date of Next Meeting

The Committee will next meet on 14 January 2004.

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 >.

(iii) Practice Review -
HKSA Exposure Drafts Of Revised Statements 1.400 "Practice Review - Explanatory Foreword" And 1.401 "Practice Review - Review Procedures And Conduct Of Members"

Statements 1.400 "Practice Review - Explanatory Foreword" and 1.401 "Practice Review - Review Procedures and Conduct of Members" were issued in July 1992. Practice review has now been in operation for over ten years and practising members have had the time and opportunity to take steps to implement policies and procedures to ensure that their work is done in compliance with professional standards. The proposed revised Statements reflect the changes to practice review as the HKSA moves to adopt a risk-based approach to practice review.

The proposed changes remove references to the "educational thrust" and the "random" selection of practice units for practice review.

Other changes take into account:

(a) the revised scope and authority of accounting and auditing statements introduced under Statement 2.0 "Preface to Hong Kong Financial Reporting Standards" issued in October 2003, and SAS 010 "The Scope and Authority of Auditing Pronouncements" issued in September 1994. Previously there was no specific mention to Guidelines and these have now been included to clarify the position;

(b) changes to the definition of "professional standards" to include professional standards issued on assurance work; and

(c) to provide the Practice Review Committee greater flexibility in deciding whether or not to raise a complaint (see paragraph 41 of Statement 1.401). The previous wording appeared to require a complaint to be raised where practice review findings identified any non-compliance with professional standards, irrespective of whether the non-compliance was significant or not.

The Invitation to Comment and the Exposure Drafts have been posted on the HKSA's website at:
< http://www.hksa.org.hk/professionalcompliance/practice_reviews/content.php#6 >.

Members and interested parties are requested to submit their comments on the Exposure Drafts to the HKSA on or before **15 March 2004** so that they can be considered and included in the final revised Statements.