



This is the 25th 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 [by email](#).

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Members' Handbook Update

1. Update No. 3 - Revised Statements 1.400 "Explanatory Foreword" And 1.401 "Review Procedures And Conduct Of Members" On Practice Review

Update No. 3 contains the revisions to Statements **1.400 "Explanatory foreword"** and **1.401 "Review procedures and conduct of members"**.

Statements 1.400 and 1.401 which deal with practice review were issued in July 1992. Practice review has 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 revised statements reflect the changes to practice review as the HKSA moves to adopt a risk-based approach to practice reviews.

The 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 the new 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.

Technical Update Evening

2. Technical Update Evening (TUE) Programme

The latest **TUE Programme** includes:

- Auditors Beware: New Auditing Guidance (20 July 2004)
- New Hong Kong Accounting Standards (7 September 2004)
- New Audit Risk SASs (27 September 2004)

Seats are limited. To secure your seats, please register early by completing the **registration form** and returning it to the HKSA.

Watch out for the next TUE Programme, which will include the proposed new quality control standards for firms and practitioners (article 7 below refers) and members' innovation initiatives to be launched later this year. Further details will be announced.

Financial Reporting

3. HKSA Invites Comments On IASB Discussion Paper, *Preliminary Views On Accounting Standards For Small And Medium-Sized Entities*

The International Accounting Standards Board (IASB) has published a [Discussion Paper on its proposal to develop a separate set of international accounting standards for small and medium-sized entities \(SMEs\)](#). The Discussion Paper sets out the IASB's preliminary views on aspects of the proposal and invites comments on them by 24 September 2004.

Issues raised in the IASB's Discussion Paper include the following:

- Should the IASB develop special financial reporting standards for SMEs?
- What should be the objectives of a set of financial reporting standards for SMEs?
- For which entities would IASB Standards for SMEs be intended?
- If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?
- May an entity using IASB Standards for SMEs elect to follow a treatment permitted in an International Financial Reporting Standard (IFRS) that differs from the treatment in the related IASB Standard for SMEs?
- How should the IASB approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?
- If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?
- In what format should IASB Standards for SMEs be published?

On 17 May 2004, the HKSA issued a [Consultation Paper on a proposed implementation of a Small and Medium-Sized Entity Financial Reporting Framework and Financial Reporting Standard](#) in Hong Kong. Comments on that Paper are requested to be received by 31 August 2004.

Commentators in Hong Kong may note that the HKSA's Consultation Paper makes reference to the IASB's Standards for SMEs project. The IASB's Discussion Paper is the first public consultation issued by the IASB in this regard. The HKSA will be preparing a comment letter on the IASB's Discussion Paper and, accordingly, invites comments from all interested parties on the HKSA's Consultation Paper and/or the IASB's Discussion Paper by 31 August 2004.

4. FASC Invites Comments On Exposure Draft, *Proposed Convergence Of Hong Kong Accounting Standards With International Accounting Standards*

The FASC has released [Exposure Draft, Proposed Convergence of Hong Kong Accounting Standards with International Accounting Standards](#). This ED contains the following proposed revised or new Hong Kong Accounting Standards (HKASs) and HKAS Interpretations:

- HKAS 7 Cash Flow Statements
- HKAS 17 Leases

- HKAS 23 Borrowing Costs
- HKAS 24 Related Party Disclosures
- HKAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions
- HKAS 31 Interests in Joint Ventures
- HKAS 40 Investment Property
- HKAS-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures
- HKAS-Int 15 Operating Leases – Incentives
- HKAS-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets

A summary of main changes can be found in the Invitation to Comment on the ED. Public comment is invited by 16 September 2004.

5. FASC Invites Comments On IFRIC Two Draft Interpretations, D7 Scope Of SIC-12 Consolidation — Special Purpose Entities, And D8 Members’ Shares In Co-Operative Entities

The International Financial Reporting Interpretations Committee (IFRIC) has released for public comment two Draft Interpretations, *D7 Scope of SIC-12 Consolidation—Special Purpose Entities*, and *D8 Members’ Shares in Co-operative Entities*.

D7 proposes removing the scope exclusion in SIC-12 for equity compensation plans. Hence, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of a share-based payment arrangement would be required to consolidate that trust. D7 also proposes that the scope exclusion in SIC-12 for post-employment benefit plans should be amended to include other long-term employee benefit plans, to ensure consistency with the requirements of IAS 19.

D8 proposes to deal with the issue of how should the redemption terms be evaluated in determining whether the financial instruments should be classified as liabilities or equity.

Under the HKSA’s due process for setting accounting standards, the FASC has issued [an Invitation to Comment on the draft interpretations](#) with comments requested by 30 August 2004.

Following from the IFRIC’s final approved Interpretations, the FASC intends to recommend the adoption of new Hong Kong Interpretations so that the HKSA Interpretations maintain conformity with the IFRIC’s Interpretations. The FASC does not intend to issue specific Hong Kong draft Interpretations on the matters covered in the IFRIC draft Interpretations.

Audit & Assurance

6. HKSA’s IAASB Pronouncements Convergence Project

The HKSA’s International Auditing and Assurance Standards Board (IAASB) Pronouncements Convergence Project aims to converge the local Auditing and Assurance Pronouncements in [Volume III](#) of the Members’ Handbook with the [IAASB Pronouncements](#). This will involve issuing in the next few months by the HKSA a number of new and revised Auditing and Assurance Pronouncements which include:

- (a) An Exposure Draft of proposed new “Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services” to replace SAS 010 “The scope and authority of auditing pronouncements”. Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services will include:
 - Hong Kong Engagement Standards replacing the extant Statements of Auditing Standards and Standards on Assurance Engagements. Hong Kong Engagement Standards will include:

- Hong Kong Standards on Auditing (HKSAAs) which are to be applied in the audit of historical financial information;
 - Hong Kong Standards on Review Engagements (HKSREs) which are to be applied in the review of historical financial information;
 - Hong Kong Standards on Investment Circular Reporting Engagements (HKSIRs) which are the proposed new IPO Engagement Standards currently under exposure;
 - Hong Kong Standards on Assurance Engagements (HKSAEs) which are to be applied in assurance engagements dealing with subject matters other than audits or reviews of historical financial information; and
 - Hong Kong Standards on Related Services (HKSRSs) which are to be applied to compilation engagements, engagements to apply agreed-upon procedures and other related services engagements.
- Hong Kong Standards on Quality Control (HKSQCs) – a new series of quality control standards for practitioners to apply for all services falling under HKSAAs, HKSREs, HKSIRs, HKSAEs and HKSRSs.
 - Hong Kong Framework for Assurance Engagements – the new assurance framework for HKSAAs, HKSREs, HKSIRs and HKSAEs.
- (b) 5 new and revised local Auditing and Assurance Pronouncements adopting the equivalent new and revised IAASB Pronouncements:
- Hong Kong Framework for Assurance Engagements replacing SAE 100
 - HKSAE 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” replacing SAE 200
 - HKSQC 1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements” (see article 7 below for further details)
 - HKSA 220 “Quality Control for Audits of Historical Financial Information” replacing SAS 240 (see article 7 below for further details)
 - HKSA 240 “Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” replacing SAS 110.

Due process was followed by the HKSA in developing these Standards including **issuing Hong Kong Invitations to Comment and making Submissions to the IAASB**.

- (c) 25 HKSAAs to replace SASs 100, 120, 130, 140, 150, 160, 200, 220, 315, 330, 401, 402, 410, 420, 421, 430, 440, 450, 460, 480, 500, 500A, 520 and 610.
- (d) 1 HKSRE to replace SAS 700.
- (e) 2 HKSRSs to replace SASs 710 and 720.
- (f) An Exposure Draft of proposed new HKSA 800 “The Auditor’s Report on Special Purpose Audit Engagements”.

In relation to (c), (d) and (e) above, a mapping exercise of the extant SASs and their equivalent ISAs has been completed by the AASC. The mapping exercise reveals that the re-issuance of these standards as HKSA, HKSRE and HKSRSs will not involve substantial changes to the existing standards.

SAS 230 “Documentation”, SAS 510 “Principal auditors and other auditors” and SAS 600 “Auditors’ reports on financial statements” are currently under review by the AASC to see if their revisions should be put on hold pending the completion of the IAASB revision projects for the equivalent ISAs 230, 600 and 700.

7. The Proposed New Quality Control Standards For Firms And Practitioners

The proposed HKSQC 1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”, adopting the new ISQC 1 of the same title, will require a firm to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.

It is structured in such a manner that it deals with the following distinct aspects of quality control within a firm:

- Leadership responsibilities for quality control within a firm
- Ethical requirements (including independence)
- Acceptance and continuance of client relationships
- Human resources
- Engagement performance
- Monitoring

A significant new requirement of this standard is that of the “engagement quality control review” which must be performed for audits of financial statements of listed entities and such other engagements as a firm determines and entails an objective evaluation by an “engagement quality control reviewer” of the significant judgements made by the engagement team and the conclusions reached in formulating the auditor’s report. The engagement quality control review is to be performed prior to the issue of the audit report.

The proposed HKSA 220 “Quality Control for Audits of Historical Financial Information”, adopting the revised ISA 220 of the same title, will require engagement teams to implement quality control procedures that are applicable to the individual audit engagement. It is structured in the same manner as HKSQC 1 but focuses on the individual engagement.

To promote practitioners’ awareness of the new requirements under HKSQC 1 and understanding of their implications in terms of training and resources requirements, the AASC will hold a press briefing to announce the issue of the new standards which is expected to be in September 2004, and arrange for CPD seminars and TUE sessions to be held once the Standards are issued.

To give practitioners sufficient time to design and implement the quality control systems required under the proposed HKSQC 1, these two proposed standards will have the same effective date as their international equivalents, i.e. to be effective on 15 June 2005.

8. AASC Meeting Summary – 18 May 2004

The [Meeting Summary](#) is available on the HKSA's website.

Corporate Governance

9. Entries Invited As HKSA Best Corporate Governance Disclosure Awards 2004 Is Launched

A press conference to launch the [2004 Best Corporate Governance Disclosure Awards](#) ("the Awards") was held on 14 July 2004. The Awards aims to promote better corporate governance standards in Hong Kong, and to identify and acknowledge those corporations and companies whose annual reports represent the best or most improved in their class, in terms of their corporate governance disclosures and practices.

The competition is now entering its fifth year and it continues to develop. As always, the Awards is open to listed companies as well as public sector/not-for-profit organisations. A new development this year is the introduction of a separate awards category to encourage good governance amongst Growth Enterprise Market (GEM)-listed companies. As a result, the 2004 Awards will be presented in four different categories, namely,

- (i) Hang Sang Index (HSI)-constituent companies
- (ii) Non-HSI Main Board-listed companies
- (iii) GEM-listed companies
- (iv) Public sector/Not-for-profit organisations

Entrants will be judged on the quality and standard of presentation and disclosure of corporate governance information contained in their annual reports for the financial year ended between 1 April 2003 and 31 March 2004, as well as the standard of the underlying governance practices. In making their assessments, panels of reviewers and judges are looking in particular for voluntary disclosures that go beyond the minimum legal and regulatory requirements.

In addition to the Diamond, Platinum and Gold Awards, a Significant Improvement Award will be presented in each of the above four categories to reward the company/organisation in that category which shows the most substantial improvement and commitment towards enhancing its corporate governance disclosures and practices.

The improvements in the quality of disclosure of many of the annual reports submitted in last year's competition provided a clear indication of the increasing recognition and acceptance of the importance of good corporate governance amongst the local business community. However, given the highly competitive global environment in which Hong Kong is operating, we cannot afford to rest on our laurels. There is a continuing need to promote a culture of transparency and accountability, in which there is a general appreciation of the value of good governance to the reputation and performance of both individual companies and the market as a whole.

We hope that members working in companies/organisations that are eligible to enter the Awards, or who are working as auditors of such companies/organisations will show their support to the competition by encouraging their employer companies/organisations or clients, respectively, to participate in the 2004 Awards. The deadline for entry is 27 August 2004.

Members who wish to obtain more details about the 2004 Awards may refer to the [pamphlet](#) or [contact](#) Mary Lam, Assistant Director (Business Members & Specialist Practices) at the HKSA.

Legislation & Government Initiatives

10. The Law Reform Commission Proposes Reform To The Doctrine Of Privity Of Contract

The Law Reform Commission's Privity of Contract Sub-committee ("the Sub-committee") has released a consultation paper on proposals to reform the doctrine of privity of contract ("the [consultation paper](#)"), on which the HKSA's views have been sought.

The privity doctrine has two aspects: as a general rule, (i) a person cannot acquire and enforce rights under a contract to which he is not a party; and (ii) a person who is not party to a contract cannot be made liable under it. Whilst the second aspect is generally regarded as just and sensible, the first aspect has been subject to widespread criticism in a number of common law jurisdictions. In Australia (Queensland, Western Australia, and Northern Territory), England, New Zealand and Singapore, the privity doctrine has been abrogated by legislation.

The main concern of the consultation paper is therefore with the first aspect of the doctrine, covering the following questions:

- whether the anomalies of the privity doctrine are serious enough to warrant its reform (Chapters 1 and 2); if so,
- whether ad hoc reforms, either by the courts on their own initiative or by legislation, are adequate in the Hong Kong context, or whether comprehensive legislative reform is necessary (Chapter 3); and
- if comprehensive legislative reform is necessary, what the main elements of the proposed legislative scheme should be (Chapter 4).

The Sub-committee believes that the doctrine frustrates contracting parties' intention to benefit third parties, and recommends a general and wide-ranging statutory exception to the doctrine. It also recommends that all the major issues arising from the proposed statutory exception should be dealt with in the new legislation, including:

- How should a third party be designated?
- Under what circumstances should a third party have the right to enforce a contract to which he is not party?
- How should the balance between the contracting parties' freedom to vary or rescind the contract and the third party's interests be struck?
- Should the courts have the discretion to authorise variation or cancellation of the contract by the contracting parties?
- What defences, set-offs and counterclaims should be available to the contracting party who has promised to confer benefits on the third party in an action brought by the latter to enforce the promise against the former?

The underlying principle of the reform is to respect contracting parties' freedom of contract and, where appropriate, to give effect to their intention to benefit a third party. If the parties prefer, they will be able to make it clear in their contract that the proposed legislation is not to apply to their contract. The Sub-committee's recommendations are summarised in Chapter 5 of the consultation paper.

The HKSA's Expert Panel on Legal Matters is in the process of considering the [consultation paper](#). Members will be kept informed of major developments on the matter.

11. The Competition Policy Advisory Group Issues Its Annual Report 2003-2004

The Competition Policy Advisory Group (COMPAG), chaired by the Financial Secretary, was established in December 1997 to provide a high-level and dedicated forum to review competition-related issues that have substantial policy or systemic implications, and examine the extent to which more competition should be introduced in the public and private sectors. The Advisory Group has published its sixth annual report, COMPAG Report 2003-2004. The report, which outlines the efforts of the Government in promoting competition in various sectors during the period April 2003 to March 2004, may be accessed at the [COMPAG website](#).

Corporate Restructuring & Insolvency

12. Online Searches For Bankruptcy And Compulsory Winding-Up Records

Members may like to note that online searches and bulk searches for bankruptcy and compulsory winding-up records may now be carried out at the [Government website](#), under “Government Public Services”. The fee for each bankruptcy or compulsory winding up search request is HK\$85.

In addition, creditors, debtors, bankrupts and directors may change their registered postal addresses with the Official Receiver’s Office via *ESDlife* free.

Further information on the services is contained in a [leaflet](#) published by the Government.

13. Court Issues General Direction With Respect To Applications For Company Dissolution

Members who conduct insolvency work may wish to note that pursuant to rule 6(a) of the Companies (Winding-up) Rules (Cap. 32H), the Court has made the following directions:

1. Applications made under section 227 of the Companies Ordinance (Cap. 32) for the dissolution of a company by order of the Court may be heard and determined by a Master in Chambers.
2. Any such application heard before a Master may at any time be adjourned by him to be heard before a Judge, where appropriate, pursuant to rule 6(b) of the Companies (Winding-up) Rules.
3. The directions came into effect on 2 July 2004.

Taxation

14. Tax Anti-Avoidance Legislation Comes Into Effect

The Inland Revenue (Amendment) Ordinance 2004 (“the Ordinance”) was published in the Government Gazette and came into effect on 25 June 2004. The progress of the Ordinance, which was introduced into the Legislative Council (“LegCo”) three and a half years ago as the Inland Revenue (Amendment) Bill 2000, has been reported on in various issues of TechWatch (most recently in [Issues Nos. 19 \(December 2003\) and 21 \(February 2004\)](#)).

When the Bill was first introduced there were strong objections from industry and professional bodies, particularly to the proposed amendments to section 16 of the Inland Revenue Ordinance (IRO) relating to, amongst other things, the deduction of expenses for interest payable on debentures and other instruments. As a result of the objections, a number of Committee Stage Amendments were made to this part of the Bill, so that, for example, a debenture-issuer will not be denied the relevant deduction in its entirety simply

because an associate subscribes for some of the debentures, but the deduction may be apportioned depending upon the amount of debentures held by associates and the period for which they are held.

The amendments introduced by the Ordinance cover the following main areas:

- strengthening the anti-avoidance provisions on the deduction of interest expenses under s.16 of the IRO;
- amending the provisions relating to royalty income under s.15 of the IRO, for revenue-protection purposes, following the decision of the Court of Final Appeal in [Commissioner of Inland Revenue v. Emerson Radio Corp.](#) (Click on “Court of Final Appeal, Final Appeal (Civil)” then “1999”);
- revising the method of computation of annual allowances and the determination of balancing allowances and charges relating to the depreciation of industrial and commercial buildings under s.33A of the IRO;
- expanding the scope of the deduction for self-education expenses under s.12(6) of the IRO to, amongst other things, include fees paid in respect of certain specified examinations;
- amending the provisions on mortgage loan interest deduction in respect of car parking spaces under s.26E of the IRO; and
- amending the provisions in s.68 and s.82B of the IRO relating to appeals to the Board of Review.

It should be noted that the transitional provisions and the years of assessment to which the Ordinance applies are different for different parts of the legislation. For example, the amendment relating to the mortgage loan interest deduction for car parking spaces under s.8 of the Ordinance applies in relation to the year of assessment 1998/99 and all subsequent years while the changes relating to the deduction of expenses of self-education under s.4 of the Ordinance, subject to some exceptions, apply in relation to the year of assessment 2000/2001 and all subsequent years.

The Ordinance may be accessed at the website for the [Government Gazette](#).

Insurance & MPF

15. Insurance Authority Issues Guidance Note On Asset Management

The Insurance Authority has issued [GN 13 - Guidance Note on Asset Management by Authorized Insurers](#), which was developed from the “Supervisory Standard on Asset Management by Insurance Companies” published by the International Association of Insurance Supervisors taking into account the local circumstances. The Guidance Note shall become operational with effect from 1 July 2005.

GN 13 aims to address the control over investment/assets risks and to ensure a minimum standard in asset management system. It sets out the essential elements of a sound asset management system and reporting framework across the full range of investment activities. It covers three areas:

- the main elements of investment policy and procedures that should be adopted by the Board of Directors/senior management;
- the monitoring and control of investment activities; and
- supervision by the Insurance Authority.

GN 13 applies to an insurer incorporated in Hong Kong and the Hong Kong branch of an insurer incorporated outside Hong Kong whose investment in financial assets exceeds HK\$100 million. An insurer which has ceased insurance underwriting in Hong Kong and is running off its Hong Kong insurance business is exempted.

16. **MPFA Issues Code To Enhance Transparency Of MPF Investment Funds Information**

The Mandatory Provident Fund Schemes Authority (MPFA) has issued a [Code on Disclosure for MPF Investment Funds](#) (the “Code”). It is expected that better disclosure will help scheme members to make more effective MPF investment decisions.

The Code was the result of a [Consultation Paper](#) issued earlier this year. The HKSA’s Expert Panel on Insurance has made a [submission](#).

The Code gives guidance to approved trustees and other service providers on the disclosure of information about MPF schemes and constituent funds and in particular information about fees, charges and performance. The Code also gives guidance to operators of approved pooled investment funds (APIFs) on the disclosure of information (particularly expense information) to operators of funds that invest in those APIFs.

The Code sets out the five good disclosure principles used in the development of the contents of the Code:

- Principle 1 – Information should facilitate decision making
- Principle 2 – Information should be timely
- Principle 3 – Disclosure should promote comparability
- Principle 4 – Disclosure should be consistent
- Principle 5 – Disclosure should be clear and concise

Based on the five good disclosure principles, the Code provides guidance about the minimum disclosure contents for a number of key disclosure documents, including the offering documents and the fund fact sheet, which are the principal mechanisms for delivering information to scheme members and other interested parties. It also discusses the disclosure and calculation of the Fund Expense Ratio which is a measure of the total level of expenses incurred in investing through a fund.

The Code should be complied with immediately upon its publication in June 2004. However, there are transitional provisions in a number of areas including fee table of registered schemes, on-going cost illustrations of registered schemes, Fund Fact Sheet and Fund Expense Ratio which are detailed in Part G of the Code.

Banking

17. **HKMA Issues Supplement To The Prevention Of Money Laundering Guideline**

The Hong Kong Monetary Authority (HKMA) has issued a [revised Supplement to the Guideline on Prevention of Money Laundering](#) (the “Supplement”) together with its accompanying [Interpretative Notes](#), which provide practical guidance on implementing the requirements of the Supplement and explain the use of a risk-based approach. The revised version supersedes the previous Supplement issued in March 2003.

The Supplement sets out the latest “Know-Your-Customer” principles, taking account of the requirements of the paper “Customer Due Diligence for Banks” issued by the Basel Committee on Banking Supervision in October 2001 and the revised Forty Recommendations issued by the Financial Action Task Force on Money Laundering in June 2003.

The Supplement contains a number of sections that are not currently covered in the [Guideline on Prevention of Money Laundering](#) (the “Guideline”), such as customer acceptance policy, non-face-to-face customers, politically exposed persons, etc. The Supplement also contains a number of sections that supersede or are supplement to certain paragraphs of the Guideline which primarily relate to Section 5 “Verification of identity of applicants for business” and Section 9 “Reporting of suspicious transactions” of the Guideline.

In general, the requirements in the Supplement apply to new customers, except where it is clear from the context that they also apply to existing customers.

The HKMA requires authorized institutions (AIs) to apply the modified requirements in the Supplement as soon as possible, and in any case not later than 31 December 2004.

18. HKMA Issues Guidelines On The Sharing And Use Of Credit Data Through A Credit Reference Agency

Commercial credit data

The HKMA has issued a new [Supervisory Policy Manual IC-7: The Sharing and Use of Commercial Credit Data through a Commercial Credit Reference Agency](#) to specify the minimum standards that AIs should observe in relation to the sharing and use of commercial credit data through a commercial credit reference agency (CCRA).

A CCRA is an organization which gathers and collates information about the indebtedness and credit history of commercial enterprises and makes such information available to lending institutions. Pursuant to IC-7, all AIs involved in the provision of commercial credit to small and medium-sized enterprises (SMEs) are expected to participate as fully as possible in the CCRA scheme. IC-7 sets out the requirements for AIs to obtain customer consent prior to disclosing their credit data to the CCRA, the safeguards that should be applied by an AI to protect information security and the safeguards that an AI should require the CCRA whose service it has engaged to adopt to protect information security.

IC-7 is applicable to all AIs which are involved in the provision of credit to SMEs.

The HKMA expects AIs to have their data and systems fully prepared and ready for submission upon the launch of the CCRA, which is expected to take place in September 2004.

Consumer credit data

The HKMA has recently revised [Supervisory Policy Manual IC-6: The Sharing and use of Consumer Credit Data through a Credit Reference Agency](#) issued in 2003 in the light of a recent complaint concerning the sharing and use of consumer credit data by adding a new paragraph 4.2.3. The new paragraph provides guidance to AIs in handling credit applications referred by an intermediary rather than submitted directly by the credit applicants.

Comment Key Dates

<u>Date</u>	<u>Subject</u>
14 August 2004	<u>HKSA Exposure Draft of Proposed Standards and Guidance for HKSA Members in Performing Listing Engagements</u>
30 August 2004	<u>Hong Kong Invitation to Comment</u> on IFRIC Draft Interpretations D7 <i>Scope of SIC-12 Consolidation—Special Purpose Entities</i> , and D8 <i>Members' Shares in Co-operative Entities</i> , which have been posted on the <u>IASB's website</u> [IASB deadline: 13 September 2004]
31 August 2004	<u>Consultation Paper on a Proposed Implementation of a Financial Reporting Framework and Financial Reporting Standard for Small and Medium-sized Entities</u>
31 August 2004	<u>Hong Kong Invitation to Comment</u> on IASB Discussion Paper, <i>Preliminary Views on Accounting Standards for Small and Medium-sized Entities</i> , which has been posted on the <u>IASB's website</u> [IASB deadline: 24 September 2004]
16 September 2004	<u>Exposure Draft, Proposed Convergence of Hong Kong Accounting Standards with International Accounting Standards</u>
Please send comments to <u>commentletters@hksa.org.hk</u>	