



# STANDARDS & TECHNICAL

NEWS AT A GLANCE

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

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## **Spotlight**

### 1. **Handbook Update No. 21**

**Update No. 21** encloses the new Hong Kong Standard on Investment Circular Reporting Engagements 400 *Comfort Letters and Due Diligence Meetings on Financial and Non-financial Information*. Further details are set out under the “Audit & Assurance” section of **TechWatch No. 37**.

## **CPD & Events**

### 2. **Technical Update Evening (TUE)**

The **new TUE programme** on financial reporting and auditing features the following highly popular sessions in November and December 2005:

- 511 (8 Nov) Revised standards on fraud consideration and audit planning (Re-run)
- 512 (22 Nov) Presentation issues
- 513 (29 Nov) New quality control standards for auditors (Re-run)
- 514 (7 Dec) Financial instruments: new disclosures and other changes
- 515 (16 Dec) 21 replacement Hong Kong Auditing Standards (Re-run)

To secure your seats, please register early by completing the **registration form** and returning it to the Institute.

### 3. **Professional Development Activities November To December 2005**

CPD is the means by which CPAs maintain, improve and broaden their knowledge and skills and develop the personal qualities required in their professional lives. The Institute is committed to providing an all rounded CPD programme to suit the varying needs of members.

Click **here** for the full programme, which includes a variety of activities such as seminars, workshops, forums, visits and more..... Enrol early to secure a seat as several of the seminars and workshops are already full.

### 4. **New CPD Requirements Free Information Sessions**

The Institute has issued a revised **Statement 1.500** (August 2005), which prescribes new CPD requirements as from 1 December 2005. Under the new requirements, all members are required to complete a minimum of 120 hours of relevant professional development activity in each rolling three-year period, of which 60 hours should be verifiable. A minimum of 20 hours of the 120 hours should be completed each year.

To enable you to have a better understanding of the new CPD requirements and to answer any questions you may have, a number of free information sessions will be organised. The first two sessions are fully subscribed. The third one, which will be held on 6 December 2005 at 7 pm – 8 pm at the Training and Meeting Centre of the Institute, is still open for enrolment.

Please click **here** for further details and registration.

## **Financial Reporting**

### **5. Institute Comments On IASB Proposed Policy On Technical Corrections**

The Proposed Policy on Technical Corrections sets out the types of issue that a technical correction addresses; the initial identification of technical corrections and the technical corrections due process.

Under the Institute's due process for setting accounting standards, the Institute made a **submission** to the IASB. In general, the Institute supports the development of a policy to deal with those changes to standards that are properly classified as "technical corrections".

### **6. Institute Invites Comment On Draft Technical Correction (DTC) 1**

The Institute has issued an **Invitation to Comment** on IASB DTC 1 *Proposed Amendments To IAS 21 The Effects Of Changes In Foreign Exchange Rates – Net Investment In A Foreign Operation* with comments requested by 25 October 2005.

DTC 1 proposes to require exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements, irrespective of the currency of the monetary item and irrespective of whether the monetary item results from a transaction with the parent or with any of its subsidiaries. It also proposes to clarify that an investment by an associate of the reporting entity in a foreign operation is not part of the reporting entity's net investment in that foreign operation.

Following from the IASB's final approved Technical Correction, the FRSC intends to recommend the adoption of the Technical Correction so that the Hong Kong Financial Reporting Standards maintain conformity with the IASB's Standards.

### **7. FRSC Meeting Summary – 7 September 2005**

The **FRSC meeting summary** covers:

- HKFRS 7 *Financial Instruments: Disclosures*
- Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*
- Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 4 *Insurance Contracts – Financial Guarantee Contracts*
- Exposure Draft of Proposed Amendments to HKAS 27 *Consolidated and Separate Financial Statements* and HKFRS 3 *Business Combinations*
- HK(IFRIC)-Int 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*
- Example disclosure note on regulatory reserve for the purpose of the Banking Ordinance
- Accounting Update Conference
- Standard Setting Steering Board meeting held on 1 September 2005

## **Audit & Assurance**

### **8. AASC Meeting Summary – 31 August 2005**

This [AASC meeting summary](#) covers:

- Invitations to Comment on IAASB EDs of ISA 260 *Communications with Those Charged with Governance*, ISA 600 *Group Financial Statements*, ISA 705 *Modifications to the Auditor's Report* and ISA 706 *Emphasis of Matter Paragraphs*
- ED of proposed HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*
- Issuance of PN 720 *Acting as Scrutineer at a General Meeting of a Listed Issuer* and ED of PN 900 *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Financial Reporting Standard*
- Proposed ED of guidance for auditor regarding preliminary announcements of annual results
- Proposed revision to the Notes for Auditors of Recipient Organizations of the Innovation and Technology Fund
- Working Group on Types of Reporting – Progress Report
- Proposed 2<sup>nd</sup> Auditing Update Conference 2005

## **Banking**

### **9. HKMA Issues Consultation Papers On New Capital Adequacy Standards In Hong Kong**

The Hong Kong Monetary Authority (HKMA) issued, on 6 October 2005, a batch of four [Consultation Papers on New Capital Adequacy Standards in Hong Kong](#) for consultation until end of October 2005, covering the following subjects:

- Validating risk rating system under Internal Ratings-based Approach
- Weighting framework for credit risk (Basic Approach)
- Supervisory Policy Manual on operational risk management
- Latest work programme for implementing Basel II in Hong Kong.

This is the fourth batch of consultation papers issued by the HKMA on the implementation of the New Basel Capital Adequacy Standards ("Basel II") in Hong Kong. The new capital standards based on Basel II are expected to take effect from 1 January 2007 upon their finalisation.

## **Insolvency & Corporate Restructuring**

### **10. Draft Subsidiary Legislation Under Bankruptcy (Amendment) Ordinance 2005**

As reported in [TechWatch No. 35](#), under the Bankruptcy (Amendment) Ordinance 2005, which was passed by the Legislative Council in July 2005, the Official Receiver's Office may appoint private sector insolvency practitioners to act as Trustees in Bankruptcy. The appointments will be confined to those cases where individuals have filed for their own bankruptcy and the anticipated value of the estate does not exceed HK\$200,000.

The Institute has been invited to comment on the draft subsidiary legislation (including the rules), and the Institute's Insolvency Practitioners Committee is currently considering the proposals. Members will be kept informed of any significant further developments.

## **Taxation**

### **11. Institute Comments On Revenue (Profits Tax Exemption For Offshore Funds) Bill 2005**

As reported in [TechWatch No. 36](#), the [Revenue \(Profits Tax Exemption for Offshore Funds\) Bill 2005](#) (the "Bill") was being considered by the Institute's Taxation Committee. The objective of the Bill is to amend the Inland Revenue Ordinance to implement the proposal, announced in the 2003/04 Budget, to exempt offshore funds from profits tax.

The Institute expressed its support, in principle, for legislation to exempt offshore funds from profits tax, which was also a proposal put forward in the Institute's 1999/2000 budget proposals and subsequent budget submissions. At the same time, in its [submission](#), the Institute also highlighted concerns over technical matters contained in the Bill. More broadly, the Institute pointed out that while the Bill should provide greater certainty for funds that operated primarily outside of Hong Kong, it might be of less assistance to some smaller, locally-operated funds, because under the Bill, the residence of a fund was determined by the location of its central management and control and not, for example, by the residence of the investors in the fund.

## **International Newsbytes**

### **12. International Forum Supports Enhanced Auditor Independence**

The independence of auditors was the focus of an international forum hosted by the Ethics Committee of the International Federation of Accountants (IFAC) in Brussels on 11 October 2005. The Institute's vice president, Mr. Mark Fong, is a member of the IFAC Ethics Committee and attended the Forum. Forum participants, including regulators, standard setters and members of the profession, supported the principles-based approach to independence in the IFAC *Code of Ethics for Professional Accountants* and suggested ways in which the Code might provide auditors with clearer guidance in addressing independence issues. In addition, the participants emphasised the need to educate members of the profession, regulators and audit committees on the expectations of auditors with respect to independence. Click the [report of the meeting](#) for further details.

### **13. USA To Investigate More Flexible Forms Of Reporting**

From February 2005, the U.S. Securities and Exchange Commission (SEC) permitted companies to file their financial information on its data base using eXtensible Business Reporting Language (XBRL). The voluntary program was developed to allow report filers, the SEC, and users of reports filed with the SEC to test the process and to assess the benefits and costs of using interactive data.

The SEC has now released a Request for Information (RFI) concerning interactive financial data. Interactive data is intended to transform the static, text-only documents most companies filed with the SEC into dynamic financial reports that can be quickly and easily accessed and analysed. The software industry is being asked to assist the SEC in identifying ways to receive, store, view, and analyse interactive financial data. The RFI solicits further information and ideas from the technology marketplace on how best to develop tools that will make interactive financial data a reality. Click the [media release](#) for further details.

### Your Questions/Staff Answers

Please note that the staff answers only address general issues and provide general guidance. The staff answers do not constitute professional or legal advice. You need to base your accounting policies or any of your actions on Frameworks, Standards and other documents approved by the Council of the Institute, after taking account of your specific circumstances.

**Q In the case where the lease payments for a property located in Hong Kong cannot be allocated reliably into the land and building components and the whole property is accounted for as a finance lease under HKAS 17 Leases, is there a need to separate the land from the building for depreciation purposes? If the land and buildings are not separated, what is the appropriate useful life to be used if the useful life of land differs from the useful life of building?**

A. The present practice in Hong Kong suggests that the lease payments for a Hong Kong property can, in most cases, be allocated reliably into the land and building components. However, in the exceptional cases where such allocation cannot be made reliably, preparers of the financial statements should use a sensible basis in arriving at a policy for providing depreciation on the combined land and building and disclose the policy used in the notes.

**Q Paragraph 18 states that an entity which is a subsidiary or an intermediate holding company of an entity qualifies for reporting under the Small and Medium-sized Entity Financial Reporting Framework (SME-FRF) for its own financial statements if it also satisfies the conditions set out in paragraph 17. Is paragraph 18 applicable to all entities or does it only apply to entities incorporated outside Hong Kong?**

A. Paragraph 18 follows on from paragraph 17, which deals with *entities incorporated outside Hong Kong*, and it also applies to *entities incorporated outside Hong Kong*.

Hong Kong incorporated companies can apply SME-FRF if they satisfy the criteria set out in section 141D of the Companies Ordinance and choose to apply that section. Section 141D is not applicable to a company which has any subsidiary or is a subsidiary of another company formed and registered under the Companies Ordinance.