

**Issue No. 1**

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*This is the First Issue of TechWatch, a new publication designed to alert members to topics and issues that impact on them and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Ms. Winnie Cheung, Senior Director, Professional & Technical Development, Hong Kong Society of Accountants.*

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

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## Accounting & Financial Reporting

### SSAP 15 "Cash Flow Statements" (Revised)

The Hong Kong Society of Accountants (HKSA) issued SSAP 15 (revised) "Cash flow statements" and consequential amendments to SSAP 11 "Foreign currency translation". Both become effective for periods beginning on or after 1 January 2002.

SSAP 15 (revised) follows the wording of its international equivalent, IAS 7. The most notable differences between the revised SSAP and the September 1992 version of SSAP 15 to be superseded are:

- the revised SSAP classifies cash flows under three headings: 'cash flows from operating activities', 'cash flows from investing activities', and 'cash flows from financing activities'. The existing SSAP 15 specifies two additional standard headings 'returns on investments and servicing of finance' and 'taxation'; and
- the revised SSAP requires that interest and dividends should be classified on a consistent basis under either operating, investing or financing activities. Under the existing SSAP 15, these items are presented under a separate "returns on investments and servicing of finance" heading. Taxation cash flows would typically be classified as an operating activity.

SSAP 15 (revised) and the amended SSAP 11 were issued with Members' Handbook Update 19/01 and are also available on the HKSA's website <<http://www.hksa.org.hk/professional/>> (under "Professional Pronouncements" and "Volume II-A").

### SSAP 1 "Presentation of Financial Statements" (Revised)

HKSA approved revised SSAP 1 "Presentation of financial statements", and consequential amendments to other SSAPs, which become effective for periods beginning on or after 1 January 2002.

SSAP 1 (revised) amends the requirement to prepare a statement of recognised gains and losses, to now require presentation of a statement of changes in equity. This change provides a degree of flexibility for presenting the movements in share capital, reserves and accumulated profit either within the statement of changes in equity or in the notes. An additional illustrative example has been added to SSAP 1 to avoid the impression that there was only one permitted method of presentation.

SSAP 1 (revised) will be issued with Members' Handbook Update 20/01 and will be also available at <<http://www.hksa.org.hk/professional/>> (under "Professional Pronouncements" and "Volume II-A").

## **ED “Income Taxes”**

HKSA issued in October ED “Income taxes”, a proposed revision of SSAP 12 “Accounting for deferred tax”. The current SSAP 12 requires an enterprise to account for deferred tax using the liability method that is known as the income statement liability method. The ED proposes to require another liability method, which is known as the balance sheet liability method. The impact of applying the balance sheet method essentially results in application of a full liability method. Arguably, therefore, the most significant impact arising from the ED’s proposals would be for those enterprises that had previously applied the liability method on a partial basis, and not recognize a deferred tax liability when it is probable that the timing difference would not reverse.

ED “Income taxes” was issued with Members’ Handbook Update 18/01 and can be accessed at <<http://www.hksa.org.hk/professional/>> (under “Professional Pronouncements”). Comments on the exposure draft have been requested by 15 January 2002.

## **Consequential Amendments To Statement 2.301 “Accounting For General Insurance Business”**

The HKSA has revised Statement 2.301 “Accounting for general insurance business” following the issue of SSAP 15 (revised) “Cash flow statements” (see above) and the revision to SSAP 1 “Presentation of financial statements” (also see above).

The main revisions are:

- to take out the reference to the old SSAP 15’s exemption from preparing a cash flow statement for an insurance company which has taken advantage of the disclosure exemption given in Part III of the Tenth Schedule to the Companies Ordinance as the revised SSAP 15, unlike its predecessor, no longer contains such an exemption; and
- to amend the wording to match with the change made to SSAP 1.

The revised Statement 2.301 will be issued with Members’ Handbook Update 20/01 and be available on the HKSA’s website <<http://www.hksa.org.hk/professional/>> (under “Professional Pronouncements” and “Volume II-B”).

## **SSAP 34 “Employee Benefits”**

Following consideration of comments received on the exposure draft, the HKSA will soon issue a new SSAP 34 “Employee benefits” and consequential amendments to SSAP 28 “Provisions, contingent liabilities and contingent assets”. Both will become effective for periods beginning on or after 1 January 2002.

SSAP 34 is essentially the same as IAS 19 of the same title. The objective of this SSAP is to prescribe the accounting and disclosure standards for employee benefits. It requires an enterprise to recognize:

- (a) a liability when an employee has provided service in exchange for the employee benefits to be paid in the future; and
- (b) an expense when the enterprise consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

SSAP 34 and the amended SSAP 28 will be issued with Members’ Handbook Update 20/01 and be available on the HKSA’s website <<http://www.hksa.org.hk/professional/>> (under “Professional Pronouncements” and “Volume II-A”).

## **Legal Opinion On “True And Fair View” Under Hong Kong Companies Ordinance**

The Hong Kong Stock Exchange announced on 1 April 2001 a change in its listing rules to allow listed issuers and listing applicants, which have or are to have a primary listing on the Exchange, to adopt International Accounting Standards (“IAS”) with immediate effect. The announcement made no distinction between Hong Kong companies and non-Hong Kong companies, and created the uncertainty on whether the financial statements of a Hong Kong incorporated company that are prepared in accordance with IAS or other reporting framework rather than Hong Kong GAAP would satisfy the true and fair view requirement under the Companies Ordinance.

In this regard, the HKSA has obtained Counsel’s opinion. In summary, the legal opinion suggests that financial statements would not satisfy the true and fair view requirement under the Companies Ordinance if they deviated materially from HKSSAP and that this conclusion would not be materially affected by a statement showing the financial effect of any material differences between the Hong Kong accounting standards and the other basis of accounting (for example, IAS) applied in the preparation of the financial statements. The opinion also suggests that the allowance for listed issuers to present their financial statements in accordance with IAS could not dispense Hong Kong incorporated companies from their obligations under the Companies Ordinance.

The opinion has been posted on the Society’s website <<http://www.hksa.org.hk/membership/>> under “Members Only”.

## **IASB Publishes Draft Preface For Comment**

The International Accounting Standards Board (IASB) invites comment on an Exposure Draft of a *Preface to International Financial Reporting Standards*. The HKSA will be commenting on the ED and encourages Hong Kong constituents to provide comments to the IASB and copy to the HKSA. The ED is open for comment until 15 February 2002, however, the HKSA would appreciate receiving comments by 28 January 2002 to enable consideration of those comments in early February. For a copy of the ED see <<http://www.iasc.org.uk>>.

## Audit and Assurance

### ED Of Proposed PN 710 “The Auditors’ Statement On The Summary Financial Report”

The Companies Ordinance has recently been amended by the Companies (Amendment) Ordinance 2001. As a result, a listed company incorporated in Hong Kong will, from the effective date of the Amendment Ordinance, be permitted to send to an entitled person of the company (i.e. a member, a debenture holder or any other person who is entitled to receive notices of general meetings) a summary financial report (SFR) in place of the full set of the annual accounts if the entitled person so agrees.

The HKSA has issued a proposed PN providing guidance on the auditors’ responsibilities under the Companies Ordinance to report on the SFR.

The ED was issued with Members’ Handbook Update 19/01 and can be accessed at <http://www.hksa.org.hk/professional/> (under “Professional Pronouncements”). Comments on the ED have been requested by 31 January 2002.

### IFAC ED Of Proposed ISA “Auditing Fair Value Measurements And Disclosures”

To address the increasing number of complex accounting pronouncements containing measurement and disclosure provisions based on fair value, International Auditing Practices Committee of IFAC has developed and issued the above ED for consultation.

The ED addresses audit considerations relating to the valuation, measurement, presentation and disclosure for material assets, liabilities, and specific components of equity

presented or disclosed at fair value in financial statements.

Specifically, the ED provides guidance on assessing the appropriateness of fair value measurements and disclosures, how to design the audit approach, and management’s process for determining fair value and management representations. It also discusses when and how the auditors should use the work of an expert on such engagements.

The ED can be accessed at <http://www.ifac.org> (under “Exposure drafts”). It is open for comment until 15 January 2002. The HKSA will be commenting on the ED and encourages members to provide comments to the IFAC at [EDComments@ifac.org](mailto:EDComments@ifac.org) and copy to the HKSA at [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk).

### IFAC Has Released Recommendations To Support Small And Medium Practices (SMPs)

Recognizing the growing number, influence, and expanding services of SMPs in the global marketplace, IFAC has focused its attention on how it can best support this constituency. An IFAC SMP Working Party has published a report entitled, “An Assessment of International Needs and Analysis of the Activities Offered within Seven Member Bodies”, which includes descriptions of current national initiatives in addressing the needs of SMPs and recommendations for action at the international level.

The report is based on an analysis of programs and initiatives currently in place in IFAC member organizations in Canada, India, Italy, Israel, the United Kingdom, and the United States. The report can be accessed at <http://www.ifac.org> (under “News & Events”).

## Tax

### HKSA Responses To Government’s Consultation On Broad-based Taxation

In August 2001, the Government-appointed Advisory Committee on New Broad-based Taxes issued a Consultation Document entitled “A Broader-based Tax System for Hong Kong?”.

The Society made a detailed submission on the document, which took the view that if the need to broaden the tax base was adequately established, then introducing a general consumption tax (GCT) would be the most effective way of doing this. However, more work would need to be done on the most suitable form of GCT for Hong Kong, e.g. whether it should be a single or multi-stage goods and services tax or a wholesale sales tax or some other form.

The Society’s response, submitted in October 2001, can be viewed at <http://www.hksa.org.hk/professional/> (under “HKSA Submissions”).

### Latest News On Inland Revenue Departmental Interpretation And Practice Notes

Members are reminded that all new and revised Inland Revenue Department (IRD) Departmental Interpretation and Practice Notes (DIPNs) can be accessed at IRD’s website <http://www.info.gov.hk/ird/> (under “Publications/Forms”).

The most recent entirely new DIPN is No.39 on the Profits Tax Treatment of Electronic Commerce, issued in July 2001. A revision of DIPN No.12 on Commissions, Rebates and Discounts was issued in September 2001.

As recipients of the hard copies of the DIPNs from IRD should be aware, IRD will phase out the mail distribution of hard copies by 1 April 2002 and instead just refer users to the IRD website. IRD has indicated that permission is given for printing of DIPNs from the website provided that the source is acknowledged and that re-dissemination or reproduction is for a non-commercial purpose. In order to keep interested

parties informed of current developments, IRD is offering an e-mail service to advise people whenever a new DIPN or Circular Letter is issued. Registration for this service should be emailed to [taxpf@ird.gov.hk](mailto:taxpf@ird.gov.hk), providing (a) name of firm/individual, (b) business registration number, if applicable, (c) e-mail address for receipt of materials and (d) name and telephone number of contact person. (For enquiries concerning registration, contact Mr. Fan Chung-kwong of IRD at 2594 1494). Existing recipients of DIPNs who have problems setting up an e-mail account before April 2002 should write to the Deputy Commissioner (Technical) of IRD by 28 February 2002 for an extension of time, lodging a request for the continuation of the mailing service in the meanwhile.

#### **IRD Guidance For Executors And How To Apply For Estate Duty Clearance**

The IRD has issued a leaflet to help the executor of a deceased taxpayer's estate and other persons gain a better understanding of the executor's obligations and requirements

for reporting to the IRD. The reference of the leaflet, which was issued in September 2001, is PAM 49(e). Further information on estate duty can be found on the IRD website (see above) under "Tax Information". The Government Information Services Department has also issued a leaflet entitled "How to Apply: Estate Duty Clearance". This is available on the government website <<http://www.info.gov.hk>> (under "sitemap.htm", then click on "How to Apply").

#### **Annual Meeting Between HKSA And IRD Coming Up**

In early February 2002, representatives of the Society will be conducting the regular annual meeting with the Commissioner of Inland Revenue to discuss practical and procedural matters in relation to the operation of the tax system. Members of the Society are invited to forward any suggestions for agenda items, together with an explanation of the issue, to John Tang, Assistant Director (Business and Practice) by 31 December 2001. Please note, however, that the annual meeting focuses on matters of broader concern and it is not a suitable forum for taking up the details of specific cases with the IRD.



## **Corporate Restructuring & Insolvency**

#### **Companies (Corporate Rescue) Bill Introduces Corporate Rescue And Insolvent Trading**

The Companies (Corporate Rescue) Bill, which aims to establish a legal framework for rescuing companies in financial difficulties, called "provisional supervision", contains provisions that insolvency practitioners and other interested parties, such as the Hong Kong Association of Banks, believe will impede the effective use of the procedure.

The principal concern is the requirement under the Bill that, before provisional supervision may commence, a trust fund must be set up containing all the Employment Ordinance ("EO") liabilities for all employees who may be laid off. The only alternative to the trust fund is for the company to have all the required monies in cash. This is in contrast to other forms of insolvency procedure, where employees' entitlements are covered, up to a certain ceiling, under the Protection of Wages of Insolvency Fund ("PWIF") or the preferential payments under section 265 of the Companies Ordinance. Practitioners point out that under the EO there

are no limits on entitlements such as wages in lieu of notice so that, for example, highly-paid employees, which might include directors with employment contracts, who may have contractual notice periods of a year or more, will have to be paid in full under the Bill. Practitioners believe that few companies in financial difficulties will have the resources to meet such claims upfront and therefore in many cases the procedure will not be workable. As an alternative, the Society has proposed that the amounts required to be contained in the trust fund be capped to levels similar to those payable under the PWIF. For additional sums, employees should be ordinary creditors, as under the PWIF arrangements.

The Society's recent submissions on the Bill, dated 25 September 2001, and 9 November 2001, can be accessed at the HKSA website (see above). The Bills Committee has recently decided that scrutiny of the Bill be held in abeyance while the Government consults interested parties on alternative proposals.



## **Legislation & Government Initiatives**

#### **Drug Trafficking and Organized Crimes (Amendment) Bill 2000**

The above Bill is currently stalled in the LegCo Bills Committee. Strong opposition has been expressed by the Society and other professional bodies to the proposals to alter the standard of proof required to convict a person of failing to report suspicions that certain monies are the proceeds of an indictable offence, or in relation to dealing with the proceeds of an indictable offence. The enforcement agencies argue that although there is a reasonable number of convictions in relation to the primary criminal offences, such as drug trafficking, there are few convictions in relation to the secondary offences of handling the proceeds. They point

out that nearly all the suspicious transaction reports come from banks and only a handful have been received from other professionals e.g. lawyers and accountants. However, the professional bodies, including the bankers, are concerned that the proposed changes, while making it easier to obtain convictions in relation to guilty parties, would also result in some persons who would be innocent under the existing law being liable to face criminal prosecution.

The Society's submissions on this Bill dated 17 November 2000 and 28 June 2001, can be accessed at the HKSA website. Submissions from other bodies can be found on the LegCo website <<http://www.legco.gov.hk/english/index.htm>> (for English versions).

### **Government Seeking Views On Long Term Solution To Copyright Law**

A consultation document entitled "Review of Certain Provisions of Copyright Ordinance" was issued by the Commerce and Industry Bureau (CIB) in October 2001. The document can be accessed at the website of the CIB <<http://www.info.gov.hk/cib>>. The consultation period ends on 31 December 2001.

Members will be aware from the public debate on this subject some months ago that it has broad implications. The Intellectual Property (Miscellaneous Amendments) Ordinance 2000, implemented in April 2001, made it a criminal offence to e.g. photocopy newspaper articles, and many other materials, without permission of the copyright owner. Certain provisions of that Ordinance have now been suspended until July 2002 under the Copyright Suspension of Amendments Ordinance 2001. Through this consultation document, the Government is now seeking views on long-term solutions.

It is in everyone's interests to read the document and consider submitting views on it during the consultation period. For members' reference, the Society made a submission to LegCo on the original Ordinance and the proposals to suspend part of it. Our Expert Panel on Legal Matters (EPLM) and Small and Medium Practitioners Committee are considering the consultation document. Members of the Society are welcome to convey their views to the EPLM, c/o

John Tang, Assistant Director (Business & Practice). The Society's submission on the Intellectual Property (Miscellaneous Amendments) Ordinance 2000, dated 11 April 2001, referred to above, can be accessed on the HKSA website.

### **Companies Registry Now Accepts Filing Of Shareholders List In CD-ROM Format**

The Companies Registry (CR) has informed us that with effect from 1 November 2001, it will accept bulky lists of shareholders in CD-ROM format as an alternative to paper lists, although the relevant Annual Return or Return of Allotment should continue to be submitted on paper.

The existing procedures for searching shareholders lists in bulky computer printouts and for applying for hard copies of the lists will also apply to searches in respect of shareholders lists in CD-ROM format.

The Registry has issued Requirements for Documents Guidelines 2001 dealing with this matter. They can be accessed at the CR's website (<<http://www.info.gov.hk/cr/list/index.htm>>). Any enquiries on the Guidelines should be directed to Miss H. Chang, Assistant Registry Manager (Registration) at the CR (Tel. No.: 2867 4562) or Ms. P.Y. Keung, Assistant Registry Manager (Public Research) at (Tel. No.: 2867 2567).

## **Corporate Governance**

### **Awards For Best Corporate Governance Disclosures**

The Society once again organized the "The Best Corporate Governance Disclosure Awards" with the aim of encouraging further improvements in the standards of corporate governance in Hong Kong and establishing benchmarks for best practice against which locally-listed companies and public sector organizations can measure their own performance. This was the second year of the competition and the number of entrants increased from 54 to 62 which, given the present economic climate, was quite promising for the future of the event. This year's competition was successfully completed with the presentation of the Awards to the winners by the Financial Secretary, Mr. Antony Leung, at the Society's Annual Dinner on 27 October 2001.

The scope of the competition covered both the extent and quality of corporate governance disclosures made in annual reports – that is transparency and accountability – and the structures and practices that those disclosures reveal – reflecting the commitment to the practice of good governance.

A Judges' Report on the overall results of the competition has been issued. This contains information on the judging considerations and process, as well as providing the judges' commentaries on the annual reports of the individual winners and on the overall standard of entries, including areas for further improvement. The Judges' Report can be

accessed on the Society's website <<http://www.hksa.org.hk/publications/>>.

### **HKSA Responses to SCCLR Corporate Governance Consultation**

The Government's advisory committee on company law and corporate governance matters, the Standing Committee on Company Law Reform (SCCLR) issued a major consultation paper in July 2001 at the end of Phase I of its corporate governance review. This covered a number of issues of direct relevance to the profession. On the accounting and auditing side, areas covered by the proposals included the standards-setting process; establishing a body to investigate financial statements; practice review; the filing of financial statements by private companies; revision of audited financial statements and enabling auditors to report on any inconsistencies between the financial statements and other financial information contained in a company's annual report. The report can be accessed on the Companies Registry's website <<http://www.info.gov.hk/cr/new/index.htm>> (under "Notices").

The Society's submission to the SCCLR which covered the above areas and other corporate governance and legal matters can be accessed on the HKSA website <<http://www.hksa.org.hk/professional/>> (under "HKSA Submissions").

## OECD Issued Publication On Corporate Governance In Asia

The OECD has recently published a review entitled "Corporate Governance in Asia: A Comparative Perspective". This contains a compilation of papers on the corporate

governance environment in various jurisdictions in Asia, including a paper on Hong Kong by the Securities and Futures Commission, submitted to an OECD conference on corporate governance held in Seoul in March 1999. All OECD books and publications are available on line at <<http://www.SourceOECD.org>>.



## Comment Key Dates

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

31 December 2001 – Comments to HKSA

- re CIR/HKSA Meeting
- re CIB Consultation Paper on Copyright Law

15 January 2002 – HKSA ED/SSAP "Income Taxes".

15 January 2002 – IFAC ED/ISA "Auditing Fair Value Measurements and Disclosures". Please send comments to: <[EDComments@ifac.org](mailto:EDComments@ifac.org)> and copy to: <[commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk)>.

<[commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk)>.

31 January 2002 – HKSA ED/PN710 "The auditors' statement on the summary financial report".

15 February 2002 – IASB Exposure Draft "Preface to International Financial Reporting Standards". Please send comments to: <[commentletters@iasb.org.uk](mailto:commentletters@iasb.org.uk)> and copy to: <[commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk)>.

28 February 2002 – To notify IRD re. receipt of DIPNs.

*Comments may be submitted to HKSA by e-mail to <[commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk)>.*

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