

Professional and Technical

News at a glance



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This is the Eighth Issue of TechWatch, a publication designed to alert members to topics and issues that impact on accountants and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Ms. Winnie Cheung, Senior Director, Professional & Technical Development, Hong Kong Society of Accountants (email: <commentletters@hksa.org.hk>).

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

If you would prefer to receive future issues electronically via email or in hard copy format, you may register or alter your option online at the Members Only section of HKSA web page under "Personal Profile - Publications Preferences". If you have any questions, please contact Karen Moy, Administrative Officer, Professional & Technical Department at <karen_moy@hksa.org.hk> or tel: 2287 7089.

Headlines Of This Issue

Accounting & Financial Reporting

- HKSA Releases A Consultation Paper On A Proposed Framework For Differential Reporting
- Revised Accounting Standards
 - (a) SSAP 12, Income Taxes (Revised) And Two Related Interpretations
 - (b) A Limited Revision To SSAP 34, Employee Benefits
- HKSA Invites Comments On IASB ED "The First-Time Application Of International Financial Reporting Standards"
- FASC Meeting - 14 August 2002

Audit & Assurance

- ED Issued Of Proposed New SAS 421 "Auditing Fair Value Measurements And Disclosures"
- Auditors' Report On New Insurance Return
- First WebTrust Seal Issued In Hong Kong

Corporate Restructuring & Insolvency

- Consultancy Study Review The Role Of The Official Receiver's Office
- Change Of ORO Practice
 - (a) ORO Ceases To Act As The Nominee In Individual Voluntary Arrangements (IVA)
 - (b) Simplified Procedure For Issuing First Reports To Creditors In Non-Remunerative Consumer Credit Bankruptcy Cases

Legislation & Government Initiatives

- HKSA's Views On The Copyright (Amendment) Bill 2001

Listing & Securities Matters

- HKSA Submits Views On Proposed Securities And Futures (Miscellaneous) Rules

Taxation

- Findings From Field Audit Investigations

Financial Management

- HKSA Responds To IFAC Survey On Accountants In Business
- Enhancing The Image Of Accountants In Business

Comment Key Dates

Members Ask...

Appendices

- Financial Accounting Standards Committee Meeting Summary - August 2002
- Example Report By The Auditors On Annual Return On Employees' Compensation Gross Premium
- Upcoming CPD Programme For HKSA Members And International Conferences

Accounting & Financial Reporting

HKSA Releases A Consultation Paper On A Proposed Framework For Differential Reporting

The HKSA Council has published for public comment a Consultation Paper on a Proposed Framework for Differential Reporting in Hong Kong.

Differential reporting seeks to redress the perceived imbalance between the costs of presenting financial information drawn up in accordance with Hong Kong Statements of Standard Accounting Practice (SSAP) relative to the benefit derived from users of that financial information.

The Consultation paper discusses:

- ✓ The need for differential reporting in Hong Kong
- ✓ The basis on which differential reporting exemptions are provided
- ✓ The approach adopted in other jurisdictions
- ✓ The way in which accounting standards variations are presented in the published SSAPs

An indicative Framework is included with the Consultation Paper. The consultation period extends until 31 October 2002. Specific comments have been requested on:

- ✓ Whether there is a need for differential reporting in Hong Kong

TECHWATCH

- ✓ The basis on which differential reporting exemptions should be granted
- ✓ The proposed integrated approach to specifying differential reporting exemptions (that is, within the text of each published accounting standard rather than as a separate accounting standard)
- ✓ The nature of differential reporting exemptions that could apply under the indicative Framework

The Consultation Paper has been posted on the HKSA's website at <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/consultation_paper.pdf> and a copy of the paper has been sent to HKSA members and others who are on the Members' Handbook (paper version) mailing list.

Revised Accounting Standards

(a) SSAP 12, Income Taxes (Revised) And Two Related Interpretations

The HKSA has issued:

- ✓ SSAP 12 (revised), Income Taxes;
- ✓ Interpretation 20, Income Taxes - Recovery of Revalued Non-Depreciable Assets; and
- ✓ Interpretation 21, Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders.

The revised SSAP and Interpretations become effective for financial statements covering periods beginning on or after 1 January 2003.

These statements, based on the equivalent statements issued by the International Accounting Standards Board (IASB), replace the former SSAP 12, Accounting for Deferred Tax ("former SSAP 12").

As compared to the former SSAP 12, the most notable differences are:

- SSAP 12 (revised) adopts a balance sheet approach and is concerned with the tax consequences of the future recovery or settlement of the carrying amount of

assets or liabilities recognised in the balance sheet ("temporary differences"), whereas the former SSAP 12 is focused more on the income statement and accounting for the tax consequences of differences between profits or losses as computed for tax purposes and results as stated in the financial statements, which will be reversed in one or more subsequent periods ("timing differences"). Temporary differences may arise in circumstances that do not give rise to timing differences.

- SSAP 12 (revised) requires full provisioning whereby deferred tax is recognised in respect of all deferred tax liabilities and assets, with limited exceptions. No consideration will be given as to whether or not the deferred tax assets and liabilities are likely to be paid or settled in future, as under the former SSAP 12's partial provisioning approach.

SSAP 12 (revised) and the two related Interpretations were issued with Members' Handbook Update 7/02 and are also available at <<http://www.hksa.org.hk/professionaltechnical/publications/>> (under "Online Members' Handbook" and "Volume II-A").

(b) A Limited Revision To SSAP 34, Employee Benefits

The HKSA has issued a limited amendment to SSAP 34, Employee Benefits, following the corresponding amendment made by the IASB to IAS 19. This amendment deals with the concerns raised with the IASB by the accountancy profession that IAS 19 gave rise to counter-intuitive results. In certain circumstances, an actuarial loss in the pension plan could give rise to a reported gain in the entity's financial statements and an actuarial gain in the pension plan could give rise to a reported loss. The IASB took the view that reporting gains and losses in these circumstances would be wholly inappropriate and therefore amended IAS 19.

The limited revision to SSAP 34 was issued with Members' Handbook Update 7/02 and is also available at <http://www.hksa.org.hk/professionaltechnical/publications/> (under "Online Members' Handbook" and "Volume II-A").

HKSA Invites Comments on IASB ED "The First-Time Application Of International Financial Reporting Standards"

The International Accounting Standards Board (IASB) has published for public comment an exposure draft, ED 1, "First-time Application of International Financial Reporting Standards".

The objective of the proposed new IFRS is to ensure that an entity's first IFRS financial statements contain high quality information that:

- ✓ Is transparent for users and comparable over all periods presented;
- ✓ Provides a suitable starting point for the entity's subsequent accounting under IFRSs; and
- ✓ Can be generated at a cost that does not exceed the benefits to users.

Under the HKSA's due process for setting accounting standards, the HKSA has issued an Invitation to Comment on the IASB's exposure draft with comments requested by 15 October 2002. The Invitation to Comment has been posted on the HKSA's website at <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/> and a copy of the ED has been sent to HKSA members and others who are on the Members' Handbook (paper version) mailing list.

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

FASC Meeting - 14 August 2002

The FASC met on 14 August 2002 and discussed the following items:

- ✓ Proposed Exposure Draft on Investment Property
- ✓ Proposed SSAP on Agriculture
- ✓ Proposed Exposure Draft, Framework for the Preparation and Presentation of Financial Statements
- ✓ Proposed Exposure Draft Preface to Statements of Standard Accounting Practice

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

Audit & Assurance

ED Issued Of Proposed New SAS 421 "Auditing Fair Value Measurements And Disclosures"

The Auditing and Assurance Standards Committee (AASC) has published an Exposure Draft (ED) of Proposed SAS 421 "Auditing fair value measurements and disclosures" for consultation. Comments on the ED are requested by 18 October 2002.

The ED, which is based on International Standard on Auditing 545 of the same title, establishes standards and provides guidance on auditing fair value measurements and disclosures contained in financial statements. In particular, it addresses audit considerations relating to the measurement, presentation and disclosure of material assets, liabilities and specific components of equity presented or disclosed at fair value in financial statements.

The ED and the AASC's invitation to comment have been posted on the HKSA's website at <http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/ed-sas421.pdf>.

Auditors' Report On New Insurance Return

The Government has entered into agreement with some authorized insurers for the provision of facility covering terrorism risk in respect of employees' compensation insurance business (Agreement).

Under the Agreement, the insurer is required to pay a monthly charge to the Government based on the gross premium in respect of employees' compensation business written. An annual return together with a report by auditors are required to be submitted to the Insurance Authority (IA) within four months after the end of each financial year on the amounts of gross premium for the financial year and the charge payable thereon to the Government.

The HKSA has been in discussion with the IA since early this year in respect of the contents of the proposed report by auditors under the Agreement. The Society's proposed Example Report by Auditors which is prepared in accordance with the Standards on Assurance Engagements has been accepted by the IA. A copy of the Example Report by Auditors is attached in the Appendix.

First WebTrust Seal Issued In Hong Kong

The first WebTrust Seal in Hong Kong has been issued by Ernst and Young, Hong Kong, for the website, <http://www.rawmart.com>, in conformity with the WebTrust 'security' principle.

A website with a WebTrust Seal means that it has passed the WebTrust examination by a licensed WebTrust practitioner.

Under the WebTrust program, websites with WebTrust Seals are periodically examined by a licensed WebTrust practitioner to give assurance on compliance with the WebTrust Principles, which include separate modules on:

- On-Line Privacy
- Security
- Business Practices and Transaction Integrity
- Availability
- WebTrust for Certification Authorities.

A WebTrust Seal allows you to link to the WebTrust Practitioner's examination report, disclosures of the site's practices and policies and the WebTrust Principles and Criteria.

For further details about WebTrust service in Hong Kong, please visit the HKSA's website at <http://www.webtrust.org.hk>.

Corporate Restructuring & Insolvency

Consultancy Study Review The Role Of The Official Receiver's Office

A Consultancy Study on the Role of the Official Receiver's Office (ORO) was recently released by the Financial Services Bureau. The study aimed to review the existing role of the ORO in the provision of insolvency administration services, identify what future role ORO should play, and the changes that should be made to the present modus operandi of ORO in the light of its future role. The consultation document contains a number of recommendations regarding the administration of insolvency cases, regulation and supervision of private sector insolvency practitioners, investigation of potential misconduct and offences, enforcement of insolvency legislation, and the financing and administration of the ORO. The Consultation Paper may be accessed at the Government website at <http://www.info.gov.hk/fstb/fsb/consult/index.htm>.

Change of ORO Practice

(a) ORO Ceases To Act As The Nominee In Individual Voluntary Arrangements (IVA)

As reported in TechWatch (Issue No. 5), the increasing number of Individual Voluntary Arrangements (IVAs) under the Bankruptcy Ordinance (Cap. 6) now taking place indicates that IVAs may be gaining wider acceptance amongst creditors and debtors.

According to the ORO, private practitioners have been appointed in most of the recent IVA cases to act as the nominee to oversee and implement the terms of the

arrangement. Taking into account the increasing number of bankruptcies and the resource constraints facing the ORO, the OR has recently announced that, starting from 2 September 2002, the department will no longer accede to requests to act as the nominee in IVAs. The OR expects all such work to be handled by the private sector in future. The ORO will, however, process those cases where the ORO is already the nominee or has previously agreed to take up the job.

The ORO has made available a package of material regarding the IVA procedure, a copy of which may be obtained at the Society's reception counter at 4th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong, on receipt of a prior fax order to Angel Yu (Fax no.: 2865 6776).

(b) Simplified Procedure For Issuing First Reports To Creditors In Non-Remunerative Consumer Credit Bankruptcy Cases

Prior to 9 September 2002, the ORO was issuing first reports to creditors within about 4 months from the date of the bankruptcy order in a simple, consumer credit, summary bankruptcy case where there would not be any distribution. The administration of such a case normally takes about 6-7 months for the ORO to conclude.

The ORO has recently announced that in order to save staff resources, with effect from 9 September 2002 onwards, the creditors' reports will be sent to creditors at the time of closing the case together with the OR's Notice of Intention to apply for release.

to the importation into Hong Kong without the permission of the copyright owner, of a copy of that work which was lawfully made in the country of origin (i.e. not a pirated copy). The relaxation of restrictions on parallel imports of computer software is in line with developments taking place in a number of other jurisdictions. It should help to promote greater choice and price competition and so be beneficial for software users.

The Bill fulfils the commitment contained in the Government's earlier public consultation document ("Consultation Document on the Review of Certain Provisions of Copyright Ordinance", published in October 2001 (see TechWatch Issues No.1 & 2)) to legislate separately on the issue of computer software. However, it does not deal with the various other forms of copyright infringements discussed in the consultation document, such as the civil and criminal liabilities imposed on persons possessing infringing copies of newspaper articles, music or film recordings, etc. in a business context. In giving support to the present Bill, the Society has also urged that action be taken to resolve the continuing uncertainty over the long-term position in relation to these other outstanding copyright issues -- although, the criminal sanctions against these other types of infringements currently still remain suspended. The Copyright (Suspension of Amendments) Ordinance 2001 (Amendment) Notice 2002, passed in July 2002, extended the period of suspension for another year, from 31 July 2002 until 31 July 2003.

The Society's submission on the Copyright (Amendment) Bill 2001 may be accessed at <http://www.hksa.org.hk/professionaltechnical/submissions/docs/160802-letter.pdf>

Legislation & Government Initiatives

HKSA's Views On The Copyright (Amendment) Bill 2001

The Society expressed support for the Copyright (Amendment) Bill 2001 which removes the civil and criminal liabilities in relation to the parallel importation of, and subsequent dealings in, computer software under the Copyright Ordinance. "Parallel importation" refers generally

Listing & Securities Matters

HKSA Submits Views On Proposed Securities And Futures (Miscellaneous) Rules

The Securities and Futures Commission (SFC) issued for public comment in July 2002 a Consultation Paper on the draft Securities and Futures (Miscellaneous) Rules. The Consultation Paper proposes, inter alia, to widen the category

of persons considered to be "auditors" for the purpose of section 179 of the Securities and Futures Ordinance (SFO) which empowers the SFC to inquire into suspected misconduct in a listed corporation, compel an "auditor" to produce documents in the nature of audit working papers and explain documents that have been produced.

The Consultation Paper proposes that "auditors" under section 179 of the SFO to cover:

- former auditors;
- auditors appointed under foreign legislation; and
- people employed or engaged by an auditor for the purposes of an audit.

The Society is very concerned with the proposed widening of the definition of "auditors" and in particular the proposal to cover people employed or engaged by an auditor. Audit working papers are the property and responsibility of a practice unit and therefore the explanations on a document required by the SFC should be provided by the designated person of a practice unit and not any of its employees or consultants. The Society has expressed its views to the SFC in a submission dated 31 July 2002 which is available at <http://www.hksa.org.hk/professionaltechnical/assurance/submission/index.php>. The Consultation Paper is available at the SFC's website at <http://eapp01.hksfc.org.hk/apps/ls/lscpl.nsf/main?openform>.

It is pleased to note that the HKSA's concerns have been addressed by the SFC in its subsequent proposed Rules submitted to the LegCo Subcommittee on Draft Subsidiary Legislation to be made under the Securities and Futures Ordinance. The SFC's response to the submissions received including that of the Society is set out in the Consultation Conclusions at the SFC's website at http://www.hksfc.org.hk/eng/bills/html/consultation/misc_rules_consult_concl_eng.pdf.

Taxation

Findings From Field Audit Investigations

This subject was referred to in Issue No. 7 of TechWatch and in a letter to member practices dated 11 July 2002. The Inland Revenue Department has now made available to the Society a copy of a speech delivered by Assistant Commissioner Mr. Chan Cheong-tat at the HKSA Small and Medium Practitioners Committee Discussion Forum on 21 May 2002. The speech highlights certain findings from field audit cases for the attention of practising members.

A copy of the speech may be accessed at the Society's website at <http://www.hksa.org.hk/membership/membersonly/smps/speech.pdf>

Financial Management

HKSA Responds To IFAC Survey On Accountants In Business

Members were informed in the June 2002 issue of TechWatch, that the International Federation of Accountants (IFAC) has established a special working group to identify the needs and expectations of accountants in business (AIBs) (i.e. members working in commerce, industry and the public sector) and potential activities that would add value to their membership of IFAC, and that Mr. Edward Chow, HKSA Vice President and Chairman of the Financial Management Committee (FMC) has joined the working group.

In this context, to give further support to the global development of the accounting profession, the IFAC working group conducted a survey in July 2002 to identify the current key issues faced by its member bodies in relation to AIBs and ascertain whether member bodies would be willing to work together to address the common issues so identified.

In compiling a response to the IFAC survey, the Society canvassed views from amongst AIBs through the FMC, which comprises primarily

professional accountants working in the corporate sector in Hong Kong. If members want to have a copy of the Society's response to the IFAC survey for information, they may contact Mary Lam, Assistant Director (Business & Practice) at <mary@hksa.org.hk>.

IFAC is in the process of considering and analysing the overall results with a view to proposing the most appropriate way forward at the international level. The working group will convene again during September. We will report on significant developments in relation to this matter, either through future issues of TechWatch or other appropriate channels.

Enhancing The Image Of Accountants In Business

In addition to their involvement in the traditional areas of accounts preparation and financial management, professional accountants working in the corporate sector often have an increasingly important role to play in relation to corporate strategies, corporate finance and corporate governance matters. Although AIBs comprise a

majority of the membership of the Society, there appears to be a lack of understanding amongst the public at large of their role and how it has evolved.

With the aim of raising the level of awareness and understanding of the work and status of AIBs in the corporate sector and to enhance the public image of AIBs, the Society is planning to implement a promotional programme which will include a series of media profiles of prominent HKSA members in commerce, industry and the public sector. The November 2002 issue of the Hong Kong Accountant will also focus on accountants in the corporate and public sectors as a main theme.

Other events and activities for AIBs are also in the pipeline and members will be informed of these through the usual channels. In the meantime, if members have any further suggestions on the publicity programme that they would like the FMC to consider, please write to Mr. Peter Tisman, Deputy Director (Business & Practice) at the Society.

Comment Key Dates

| Date | Subject |
|-------------------|--|
| 30 September 2002 | Hong Kong Invitation to comment on IASB's Exposure Draft Amendments to IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement, which has been posted on the IASB website at < http://www.iasb.org.uk/docs/ias32-39/02-32_39-ed.pdf >. (IASB deadline: 14 October 2002) |
| 15 October 2002 | Hong Kong Invitation to Comment on IASB Exposure Draft: ED1, "First-Time Application of International Financial Reporting Standards", which has been posted on the IASB website at: < http://www.iasb.org.uk/docs/ed1/ed1.pdf >. The ED is accompanied by the IASB's Basis for Conclusions < http://www.iasb.org.uk/docs/ed1/ed1-bc.pdf > and draft implementation guidance < http://www.iasb.org.uk/docs/ed1/ed1-ig.pdf >. (IASB deadline: 31 October 2002) |
| 18 October 2002 | ED of Proposed SAS 421 "Auditing Fair Value Measurements and Disclosures". The ED and the AASC's invitation to comment have been posted on the HKSA website at < http://www.hksa.org.hk/professionalttechnical/assurance/exposedraft/ed-sas421.pdf >. |
| 31 October 2002 | Consultation Paper on a Proposed Framework for Differential Reporting, which has been posted on the HKSA website at: < http://www.hksa.org.hk/professionalttechnical/accounting/exposedraft/consultation_paper.pdf >. |
| | Please send comments to < commentletters@hksa.org.hk > |

Members Ask...

Location Of Online Members' Handbook And Committee Composition

A number of members have raised questions with the HKSA in relation to the availability of the online Members' Handbook online and information about the current composition of HKSA Committees.

The 7th edition of TechWatch contained details about the recent renovation of the Professional & Technical part of the Society's website. The Members' Handbook is still available, just the same as before, but its location has changed with the website restructuring. The Handbook can be accessed at: <http://www.hksa.org.hk/professionaltechnical/pronouncements/> and then by clicking on "Online Members' Handbook".

A full listing of HKSA Committee memberships was most recently published in the April 2002 edition of the Hong Kong Accountant on pages 6 - 12 and 26, which can be accessed on line at: http://www.hksa.org.hk/publications/society_journals/2002-04/4-43.pdf. The composition of HKSA committees is also published in the Society's Annual Report, which is available online at: http://www.hksa.org.hk/publications/annual_report/.

FASC's Progress On Converging SSAPs With The IASB's Standards

Q: A member comments on a document in which one reference was made to the HKSA as follows - 'the Hong Kong Society of Accountants will complete before the end of 2002 its review of accounting standards in the light of IAS.' Is this statement correct?"

A: The statement is correct but it may be necessary to explain what the statement means.

The HKSA has a policy of converging Hong Kong Statements of Standard Accounting Practice with the International Accounting Standards Board's (IASB) standards.

The HKSA's Financial Accounting Standards Committee target by the end of 2002 is to

complete its catch-up exercise with the IASB's standard - in cases both where the existing SSAP was not converged with the equivalent IASB standard and where an IASB standard had no equivalent SSAP.

This does not mean to say that all those Hong Kong SSAPs actually in effect as at the end of 2002 will be necessarily converged with the IASB's standards but rather - at the very least for those few SSAPs that are not yet converged - exposure drafts will be out in the market place that propose the adoption of financial reporting requirements in Hong Kong on a basis converged with the IASB.

As readers will appreciate from reading the article on pp.33 & 34 of the April 2002 Hong Kong Accountant (available on line at: http://www.hksa.org.hk/publications/society_journals/2002-04/4-43.pdf) the FASC has converged its processes with those of the IASB such that new proposals from the IASB will typically be issued for comment concurrently in Hong Kong and, going forward, we would expect generally that new or revised IASB standards will become effective in Hong Kong at approximately the same time and with similar transitional provisions.

For those standards subject to "product convergence" (the terminology used in the article), the IASB Standards currently in effect for which no equivalent converged SSAP has yet been issued are few in number. The following provides a summary of progress with these IAS:

- ✓ IAS 12 (Income Taxes) SSAP 12 revised will become effective in Hong Kong for periods beginning on or after 1 January 2003.
- ✓ IAS 21 (Changes in Foreign Exchange Rates) currently on exposure as part of the Improvements project.
- ✓ IAS 29 (Hyperinflationary Economies) the FASC expects to consider an exposure draft before the end of 2002.
- ✓ IAS 32 & 39 (Financial Instruments) currently on exposure.
- ✓ IAS 40 (Investment Property) is currently under the FASC's consideration (see meeting

summary attached) (Summaries of FASC meetings are also posted on the HKSA website at: <<http://www.hksa.org.hk/professionaltechnical/accounting/fascupdate>>.

- ✓ IAS 41 (Agriculture) a new SSAP will be considered by the HKSA Council at its September 2002 meeting.

When the FASC has met its target of reviewing the accounting standards in the light of IASB's standards before the end of 2002, Hong Kong's financial reporting requirements would become fully-converged with those specified in the IASB's standards after a suitable consultation and transitional (implementation) period for those IAS not yet in effect in Hong Kong (primarily the financial instruments and investment property standards).

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

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

Mr. Simon Riley, Deputy Director (Accounting)

Mr. Stephen Chan, Deputy Director (Assurance)

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

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

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

The Society's Financial Accounting Standards Committee (Committee) met on 14 August 2002 and discussed the following items:

- ✓ Proposed Exposure Draft on Investment Property
- ✓ Proposed SSAP on Agriculture
- ✓ Proposed Exposure Draft, Framework for the Preparation and Presentation of Financial Statements
- ✓ Proposed Exposure Draft Preface to Statements of Standard Accounting Practice

Investment Property

The Committee continued its discussion on a draft Invitation to Comment on a proposed Exposure Draft (ED) Revision of SSAP 13, Investment Property. The ED is based on - and would be converged with - IAS 40, Investment Property.

The draft Invitation to Comment focussed on the following areas:

- ✓ The difference in the accounting model between the present SSAP 13 (revaluation, with periodic changes in open market value typically taken directly to reserves) and IAS 40 (an initial accounting policy option between a cost model and fair value model, in the latter case with changes in fair value reported in the income statement as part of net profit or loss for the period).
- ✓ The present requirement under IAS 40 to report changes in fair value in the income statement is under review by the IASB. Since IAS 40 came into effect in 2001, many commentators have highlighted the apparent inequity in reporting unrealised gains and losses (such as those arising from changes in fair value) together with (generally realised and distributable) profits from current period operations.

The IASB has taken on board these concerns in giving its highest priority to the major overhaul of the income statement.

The Committee supports the IASB's work in restructuring the form and content of the income statement and believes that a full understanding of the proposals currently under consideration by the IASB (summarised below) would allay the concerns expressed by many commentators as to the current requirement under IAS 40 to report changes in fair value in the income statement.

- ✓ The involvement of a professionally qualified valuer, presently required under SSAP 13 for properties carried at open market value but not required under IAS 40.
- ✓ The accounting treatment in a subsidiary's financial statements in respect of investment property let to another enterprise in the same group.
- ✓ The proposal in the IASB's Improvements ED whereby investment property held under an operating lease could not be accounted for using the IAS 40 cost model.

The Committee noted that it is under an obligation to converge Hong Kong SSAPs with the IASB's Standards. With recent changes to IAS 17, Leases, proposed in the IASB's Improvements ED, it is now possible for SSAP 13 to be converged with IAS 40 - previously this was not the case. The Committee considered the following alternative courses of action:

1. Proceed with the ED and indicate that implementation of the revision to SSAP 13 will await conclusion of the IASB's Reporting Performance project;
2. Proceed with the ED and indicate that the status quo as regards accounting for changes in fair value (that is, typically, to reserve account such changes) will be retained until conclusion of the IASB's Reporting Performance project;
3. To defer publication of an ED until the IASB releases proposals to overhaul the form and content of the income statement.

The Committee considered that none of the above alternatives is consistent with its mandate to achieve convergence without delay and agreed to seek further guidance from the HKSA Council on the courses of action available.

The Committee discussed the draft Invitation to Comment. The Invitation to Comment highlights the significant consequences of adopting investment property accounting requirements converged with those specified in the IASB's Standards and invites comments thereon.

The Committee noted that the IASB's Reporting Performance project would have significant impact on the proposed introduction of accounting requirements converged with IAS 40. In summary, the IASB's current proposals are that:

- ✓ All items of revenue, expense, gains and losses would be reported in a single performance statement to be known as the "Statement of Comprehensive Income".
- ✓ The Statement of Comprehensive Income would consist of (at least) two columns, differentiating between items of revenue and expense arising from current period operations and those items that are revisions to expectations relevant to future periods.

The proposed disaggregation in the performance statement is a key aspect of the IASB's project. The results of current period operations would be reported separately from the effects of changes in estimates such as changes in the fair value of investment property.

As a consequence of the proposals presently under consideration at the IASB, the effect on reported profit or loss (from current period operations) from changes in the fair value of investment property would be completely eliminated. The Committee considered that a number of commentators may not have appreciated the significance of the IASB's proposals and that, in the context of a proposed revision to SSAP 13, it would be necessary for these be set out in the Invitation to Comment.

The Committee noted that an article on present and future developments in investment property accounting would be published in the August 2002 edition of The Hong Kong Accountant.

Agriculture

The FASC considered comment letters received in respect of the Exposure Draft of a Proposed SSAP on Agriculture.

Three comment letters were received, from:

- ✓ Charles Chan, Ip & Fung CPA Ltd
- ✓ Hong Kong Monetary Authority
- ✓ Chaoda Modern Agriculture (Holdings) Limited

The comment letters, which will be made available on the HKSA website, raised substantive points in relation to determining the cost of a biological asset, disclosure of valuers' information, potential overstatement of agricultural produce, the transitional provisions, and treatment of the unrealised gain or loss on agricultural produce after harvest.

The FASC considered that most of the points raised in the comment letters related to an understanding of the application of the proposed new SSAP rather than with the principles and requirements of the SSAP itself. The Committee noted that an article will be published in The Hong Kong Accountant following promulgation of the new SSAP and this should assist in addressing the points and clarifying on any misunderstandings apparent in the comment letters.

One comment letter raised an issue in relation to the SSAP's transitional provision and correctly noted that information on fair value would be required one year prior to the introduction of the new SSAP for comparative information purposes.

The Committee agreed to recommend that the proposed SSAP be issued as "SSAP 36", unchanged from the ED, to become effective for financial statements covering periods beginning on or after 1 January 2004.

Framework for the Preparation and Presentation of Financial Statements

At its previous meeting, the Committee had briefly considered the convergence of those SSAPs not covered by the IASB's exposure draft on Proposed Improvements to the International Accounting Standards. The release of a convergence ED was deferred pending finalisation of the IASB's improvements, but the Committee did agree to consider a draft revision to the Framework and the Foreword for the purpose of achieving convergence with the IASB's equivalent documents.

Committee members noted the main differences between the ED/Framework and the existing Framework and the concerns previously expressed about the following possible consequences of adopting the provisions in the IASB Framework to recognise a wide range of users would place reliance on financial statements for making economic decisions:

- ✓ Widening of the expectation gap of users
- ✓ Increasing the risk and potential liability of auditors
- ✓ Removal of some of the protection given to auditors by the Caparo case

These concerns gave rise to most of the changes made to the IASB Framework when it was adopted in Hong Kong in 1997.

In light of recent developments in case law, and the scope of the Framework in describing the purpose and use for financial statements, the Committee was less concerned about the potential impact from adopting the wording contained in the IASB Framework. Accordingly, the Committee approved the release of the ED and the related Invitation to Comment for a two-month consultation period.

Preface to Statements of Standard Accounting Practice

The Committee considered a draft ED/Preface to the SSAPs and the related Invitation to Comment. This ED proposes to revise the existing Foreword and is based on the IASB's recently revised Preface to IFRS. As compared to the IASB Preface, the ED includes additional provisions concerning:

- ✓ Obligation for HKSA members to comply with SSAPs and to justify departures
- ✓ Close coordination between HK and IASB due processes
- ✓ Relationship between SSAPs and IFRS
- ✓ Status and Authority of Accounting Guidelines (AG)
- ✓ Status and Authority of Accounting Bulletins (AB)

The Committee discussed whether it should discontinue development of AG and AB documents given that the IASB does not publish similar pronouncements. After consideration, the Committee agreed there might be a continuing use for AG and AB documents.

The Committee also considered whether the Preface should establish the status and authority of discussion documents, appendices and Implementation Guidance in the ED given that, unlike the IASB, the HKSA Council has enforcement power in respect of its pronouncement and the status and authority of AG and AB are set out in the ED. Members generally considered that the status and authority of the related IASB pronouncements have been adequately dealt with in the IASB Improvements ED which the Committee intends to adopt and therefore, similar to the IASB Preface, there is no need to cover this in the proposed new Preface.

Date of Next Meeting

The Committee's next meeting will be held on 11 September 2002.

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

The IASB publishes summaries of its meetings and 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.

hksa.
org.hk

**Example Report by the Auditors on
Annual Return on Employees' Compensation Gross Premium**

**REPORT BY THE AUDITORS
ON ANNUAL RETURN ON EMPLOYEES' COMPENSATION GROSS PREMIUM
TO THE DIRECTORS OF (NAME OF INSURER)**

(incorporated in *(place of incorporation)* with limited liability)

We have performed a high level assurance engagement on the attached Annual Return on Employees' Compensation Gross Premium for the (*year ended *(date)*)/period from *(date)* to *(date)*) ("Annual Return"), pursuant to the Agreement for Provision of Facility covering Terrorism Risks in respect of Employees' Compensation Insurance Business entered into between *(name of insurer)* ("Insurer") and the Government of the Hong Kong Special Administrative Region ("HKSAR") dated *(date)* ("Agreement").

Respective responsibilities of management and auditors

Pursuant to the Agreement, you are responsible for preparing the Annual Return.

It is our responsibility to form an independent opinion on the Annual Return, based on our engagement, and to report our opinion to you.

Basis of opinion

We conducted our engagement in accordance with Standards on Assurance Engagements issued by the Hong Kong Society of Accountants. Our engagement includes examining evidence supporting that proper records have been maintained in accordance with section 16 of the Insurance Companies Ordinance (Cap. 41) and the amounts in the Annual Return, and performing such other procedures as we considered necessary in the circumstances. We believe that our engagement provides a reasonable basis for our opinion.

Opinion

Based on the foregoing, in our opinion:

- a. the Insurer has maintained proper records in accordance with section 16 of the Insurance Companies Ordinance (Cap. 41) for the purpose of preparing the Annual Return; and
- b. the Annual Return has been properly prepared, in all material respects, from the books and records of the Insurer.

Use of this report

This report is intended for filing with the Government of the HKSAR pursuant to the Agreement and is not intended for any other purpose.

(Name of firm)

Certified Public Accountants

Hong Kong

(Date)

* Delete as appropriate

Upcoming CPD Programmes for HKSA Members And International Conferences

| Date | Topic |
|-------------|--|
| 03 Oct Thu | How does a Company Prepare its Financial Information for Listing |
| 04 Oct Fri | 上海房地產市場前景 |
| 05 Oct Sat | Negotiation Skill (MDC) |
| 07 Oct Mon | Rethinking Directors' Duties in Hong Kong |
| 15 Oct Tue | Managing Transfer Pricing in Tax Planning and Structuring |
| 16 Oct Wed | Consultation Paper on Differential Reporting |
| 18 Oct Fri | 建立你的專業形象 |
| 19 Oct Sat | Corporate Governance: The Professional Way - A Seminar for Accountants (Joint Seminar with Hong Kong Ethics Development Centre) |
| 22 Oct Tue | Update on Company Law Reform |
| 23 Oct Wed | Demand Chain - A New Management Perspective |
| 25 Oct Fri | SAS 110 - The Auditors' Responsibility to Consider Fraud & Error in an Audit of Financial Statements |
| 26 Oct Sat | Problem Solving and Decision Making (MDC) |
| 28 Oct Mon | A Review of Board of Review Cases Published in 2002 |
| 30 Oct Wed | PRC Individual Income Tax - Latest Development and Tax Planning |
| 31 Oct Thu | Introduction to Alternative Dispute Resolution Mechanisms |

Source: Education and Training Department (E & T)

For more information, please visit HKSA's website at <<http://www.hksa.org.hk/membership/cpd/index.php>> or contact the Education & Training Department on 2287 7058.

Please also visit the HKSA website at <<http://www.hksa.org.hk/professionaltechnical/businesspractice/pig/index.php>> for activities of Insolvency Interest Group (IIG), Information Technology Interest Group (ITIG), Financial Services Interest Group (FSIG) and Properties, Infrastructure and Construction Interest Group (PICIG), etc. Please visit the HKSA website at <<http://www.hksa.org.hk/membership/smp/activities/index.php>> for activities of the Small and Medium Practitioners Forums.

International Conference

Date

- 9 -11 Oct INSOL International Annual Conference - Beijing
(For more information, please visit the INSOL website at <<http://www.insol.org/china2002/html/intro.htm>>)
- 18- 21 Nov 16th World Congress of Accountants - Hong Kong
(Further information may be accessed at the Congress website at <<http://www.wcoa2002.com>>)