

Professional and Technical



News at a glance



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This is the 14th 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/professionaltechnical/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.

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TECHWATCH

HKSA Comment Letter On The IASB's ED 3, Business Combinations

The HKSA has sent a comment letter to the IASB in response to the IASB's invitation to comment on its Exposure Draft ED 3, Business Combinations, and Proposed Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets.

A copy of the comment letter has been posted on the HKSA website at < <http://www.hksa.org.hk/professionaltechnical/accounting/submissions/> >.

HKSA Issues Revised Framework For The Preparation And Presentation Of Financial Statements

The HKSA has issued a revised Framework for the Preparation and Presentation of Financial Statements (HK Framework) with immediate effect.

The HKSA's objective in revising the HK Framework is to bring about the convergence of the HK Framework with the Framework issued by the International Accounting Standards Board ("IASB Framework"). Although the IASB is working on a number of projects that may result in a change to the conceptual framework, the HKSA would be able to move forward in tandem with the IASB should the IASB make any changes to the IASB Framework in future.

The significant amendments to the old version of the HK Framework are to:

- ✓ Widen the scope of the HK Framework to cover "general purpose financial statements" rather than solely "true and fair view financial statements";
- ✓ Recognise that there are a wide range of users of financial statements;
- ✓ Eliminate textual differences that presently exist between the HK Framework and the IASB Framework; and
- ✓ Include within the purpose of the Framework the fact that the Framework assists the HKSA Council in developing accounting standards.

The revised HK Framework, which is largely unchanged from the text proposed in the exposure draft, will be published in a forthcoming Members' Handbook Update and on the HKSA website at < <http://www.hksa.org.hk/professionaltechnical/publications> > (under "Online Members' Handbook" and "Volume II-A").

HKSA Releases An Exposure Draft Of A Proposed Preface To Hong Kong Financial Reporting Standards And Accounting Guidelines

The HKSA has released an Exposure Draft of a Proposed Preface to Hong Kong Financial Reporting Standards and Accounting Guidelines. Comments on this Exposure Draft are requested by 15 July 2003.

The Exposure Draft proposes to revise the Foreword to Statements of Standard Accounting Practice, Interpretations and Accounting Guidelines to attain convergence with the International Accounting Standards Board's Preface to International Financial Reporting Standards.

The significant proposals in the Exposure Draft are to:

- ✓ Set out the Council's objectives, procedures and due process in respect of setting accounting standards following the adoption of the convergence policy;
- ✓ Explain the scope, authority and timing of application of Hong Kong Financial Reporting Standards (HKFRS), which, for the purposes of the proposed HK Preface, includes SSAPs;
- ✓ Make clear that the 'benchmark treatment' and the 'allowed alternative treatment' in HKFRSs are of equal standing;
- ✓ Make clear that paragraphs in bold typeface in HKFRSs indicate main principles but paragraphs in bold typeface and plain typeface have equal authority;
- ✓ Require a member of the HKSA who assumes responsibilities in respect of financial statements prepared on a basis or standard of accounting other than HKFRSs to observe

that other basis or standard of accounting and to justify departures.

A copy of the Exposure Draft and the FASC's Invitation to Comment have been posted on the HKSA website at < <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft>>.

HKSA Revises SSAP 34 Treatment Of Long Service Payments

The HKSA has revised paragraph 162 of SSAP 34, Employee Benefits, concerning the accounting for long service payments. The revised paragraph becomes effective for accounting periods beginning on or after 1 January 2003.

Under the revised paragraph, long service payments are to be accounted for as "post employment benefits" instead of "other long-term employee benefits" as required previously under SSAP 34 paragraph 162. The FASC considers that the new treatment would more appropriately reflect the nature of the payments. The main difference between the old treatment and treatment as "post-employment benefits" is that the latter allows preparers to take advantage of the "corridor" provision and the transitional provision as available for "post employment benefits" under paragraphs 92 and 155 of SSAP 34.

The revised pages of SSAP 34 will be published in a forthcoming Members' Handbook Update and on the HKSA website at <<http://www.hksa.org.hk/professionaltechnical/publications>> (under "Online Members' Handbook" and "Volume II-A").

FASC Meeting - 12 March 2003

The FASC met on 12 March 2003 and discussed the following items:

- ✓ Proposed revision of SSAP 13, Accounting for Investment Properties, based on IAS 40, Investment Property
- ✓ Proposed ED/Preface - consideration of legal advice
- ✓ Proposed Revised Framework for the Preparation and Presentation of Financial Statements

- ✓ Proposed SSAP based on IAS 29, Financial Reporting in Hyperinflationary Economies
- ✓ IASB's ED 3, Business Combinations
- ✓ SSAP 34 treatment of Long Service Payments
- ✓ Profits tax rate change announcement - impact on deferred tax in 31 December 2002 financial statements

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

HKSA Submission Of Comments On IAASB's Audit Risk Exposure Drafts

The HKSA has made a submission on the IAASB's Audit Risk Exposure Drafts, which cover the proposed amendments to ISA 200 "Objective and Principles Governing an Audit of Financial Statements" and three proposed ISAs:

- "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement";
- "The Auditor's Procedures in Response to Assessed Risks"; and
- "Audit Evidence".

The HKSA submission expresses a general support of the proposed ISAs which will increase audit quality as a result of better risk assessments and improved design and performance of audit procedures to respond to the risks.

The HKSA submission can be viewed at: << <http://www.hksa.org.hk/professionaltechnical/assurance/submission/index.php> >>.

The IAASB's Exposure Drafts can be viewed at: << <http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/auditrisk.pdf> >>.

HKSA Invitation To Comment On IAASB's Exposure Drafts Regarding Assurance Engagements And Audits Of Small Business

The IAASB has issued in March, three exposure drafts, two dealing with assurance engagements and another with audits of small business. The EDs are available for download from the IFAC's website (www.ifac.org):

- ✓ The ED International Framework for Assurance Engagements and ED International Standard on Assurance Engagements (ISAE) 2000 "Assurance Engagements on Subject Matters Other Than Historical Financial Information" upon their finalization, will result in the withdrawal of ISA 120 "Framework of International Standards on Auditing" and replacement of the existing ISAE 100 "Assurance Engagements".

The proposed Framework defines and describes the elements of an assurance engagement and identifies those engagements to which ISAs and ISAEs apply. The proposed ISAE 2000 establishes standards and provides guidance to practitioners for the performance of assurance engagements on subject matters other than historical financial information.

- ✓ The ED of proposed amendments to International Auditing Practice Statement 1005 "The Special Considerations in the Audit of Small Entities" provides an update of the Statement to take account of ISAs issued since March 1999 through March 2003.

Further details of the IAASB's exposure drafts can be found in the explanatory memorandum of the exposure drafts.

In accordance with the HKSA's ISA Convergence Due Process, the HKSA has issued an invitation to comment to solicit the views of members and interested parties on the IAASB's exposure drafts in preparing the HKSA's submission to the IAASB. The invitation to comment has been posted on the HKSA's website at: << <http://www.hksa.org.hk/professionaltchnical/assurance/exposedraft/index.php> >>.

Members and interested parties are requested to submit their comments to the HKSA on or before **6 June 2003** so that their comments on the IAASB's

exposure drafts can be considered and included in the HKSA's submission to the IAASB.

Listing & Securities Matters

FSTB/SFC's Consultation Paper on Proposed Amendments to the Companies Ordinance to Facilitate Offers of Shares and Debentures

The HKSA has commented on the FSTB/SFC's Consultation Paper << <http://www.info.gov.hk/fstb/fsb/consult/index.htm> >> which seeks to amend the Companies Ordinance to simplify the procedures for the registration and issue of prospectuses for certain offers, thus lowering the costs of raising funds with the aim to attract more financial product issuers to Hong Kong, as well as capital and investors from the Mainland and overseas.

The major proposals in the Consultation Paper cover:

- ✓ enhanced clarity of the application of the prospectus regime;
- ✓ flexible implementation of the prospectus regime;
- ✓ facilitative marketing permitted;
- ✓ alternative prospectus regime for programme offerings;
- ✓ level playing field for offers made by local and overseas companies and other miscellaneous revisions; and
- ✓ prospectus liability provisions.

Six principal types of offers would be excluded from the need to issue prospectuses:

- offers to investors falling within the definition of "professional investors";
- offers to no more than 50 persons;
- offers in respect of which the minimum denomination of, or the minimum consideration payable by any person for, the shares or debentures is not less than HK\$1 million;
- offers in respect of which the total

consideration payable for the relevant shares or debentures shall not exceed HK\$1 million;

- offers made in connection with a genuine invitation to enter into an underwriting agreement; and
- offers made in connection with a takeover or merger which is in compliance with the Codes on Takeovers and Mergers and Share Repurchases.

The HKSA submission expresses a general support of the proposals and comments that there should be some stipulation as to what minimum information should be published in lieu of a prospectus. The submission is available on the HKSA website at: <<http://www.hksa.org.hk/professionaltechnical/listing/index.php>>.

HKSA Is Developing A Practice Note On the Audit of Licensed Corporations

The HKSA is developing a Practice Note "The audit of licensed corporations and associated entities of intermediaries" which is expected to be issued for consultation in June 2003. The proposed Practice Note will give guidance on both the audit of statutory financial statements of licensed corporations and compliance reporting required by the Securities and Futures (Accounts and Audit) Rules, and provide example auditors' reports. It will also cover communications between auditors and the Securities and Futures Commission under the Securities and Futures Ordinance.

Upon finalisation, the proposed PN will supersede the following:

- PN 620.1 "Communications between auditors and securities and futures regulators";
- Industry Auditing Guideline 3.403 "The audit of the accounts of commodities dealers";
- Industry Auditing Guideline 3.404 "The audit of the accounts of dealers in securities"; and
- Example auditors' reports on the regulated entities as set out in Examples 14 to 17 in Appendix 2 to SAS 600 "Auditors' reports on financial statements".

Insurance

Audit Requirement On New Long Term Insurance Business Return

The Insurance Companies Ordinance (Amendment of Part 1 of Third Schedule) Regulation 2003 ("Part 1 Amendment Regulation") and Insurance Companies Ordinance (Amendment of Part 8 of Third Schedule) Regulation 2003 ("Part 8 Amendment Regulation") came into operation on 3 April 2003.

The Part 8 Amendment Regulation imposes a duty on long term insurers to submit new forms of annual returns for their Hong Kong long term insurance business. The Part 1 Amendment Regulation specifies the audit requirement in respect of the new annual return HKL1 which relates to the revenue account for each class of Hong Kong long term insurance business.

It requires auditors to report whether the insurer has maintained proper records in accordance with the Insurance Companies Ordinance for the purpose of preparing HKL1 and whether HKL1 has been properly prepared in accordance with those records.

The HKSA will revise Auditing Bulletin AudB 2 "Insurance Companies Ordinance auditors' reports issued pursuant to the Third Schedule" in the near future to take account of the new audit requirement.

Details of the new requirements are available on the website of the Office of the Commissioner of Insurance < <http://www.info.gov.hk/oci> >.

Legislation & Government Initiatives

Companies Registry Statistics Web Page Launched

The Companies Registry has recently launched a statistics web page which may be accessed at its website at < <http://www.info.gov.hk/cr/key/index.htm> >.

The web page contains the statistics for the period from 1995-2002, plus the current statistics for 2003, in relation to the following:

- The number of local companies on the register;
- The number of local companies incorporated;
- The number of cases of members' and creditors' voluntary windings-up, including those in progress and the number commenced in each year during the relevant period;
- The number of oversea companies on register, newly registered as having a place of business, or those which ceased to have a place of business;
- The number of charges and memoranda of satisfaction received;
- The number of documents received;
- The number of company searches; and
- The number of dissolutions, including de-registrations (starting from November 1999), strikings-off, liquidations and other types of dissolution.

Copyright (Amendment) Bill 2003

The Copyright (Amendment) Bill 2003 (the "Bill") has been introduced into the Legislative Council ("LegCo") to resolve the various problems created by the passage of the Intellectual Property (Miscellaneous Amendments) Ordinance 2000 ("IP(MA)O") which was initially implemented in April 2001 and then largely suspended by the Copyright (Suspension of Amendments) Ordinance 2001 (the "C(SA)O").

Members will be aware from the previous public debate on this subject that it has broad implications. As mentioned in TechWatch Issue No.1, the IP(MA)O made it a criminal offence to use a pirated copy of a copyright work, e.g. newspaper articles, music or film recordings, in a business context. The aim was to address the perceived inadequacy of the Copyright Ordinance whereby a person possessing an infringing copy of a copyright work, in particular pirated copies of computer software, would be prosecuted only if he was found to be "dealing in" the infringing copy. However, considerable public concern was expressed that in criminalizing, for example, the photo-copying

of a newspaper article the legislation unduly hampered dissemination of information, teaching activities and a variety of other non-commercial pursuits. The C(SA)O was therefore hurriedly introduced to suspend the relevant provisions except as they applied to four categories of copyright works, i.e. computer programs, movies, television dramas and musical recordings, which are referred to as the "Four Categories of Works" in the current Bill. The C(SA)O also suspended the application of the phrase "in connection with" in the expression "for the purpose of, in the course of, or in connection with, any trade or business" where this appeared in the Copyright Ordinance, so that activities incidental to or marginally related to business would be outside the scope of the criminal liability for using pirated copies of copyright works in business.

To formulate a long-term solution, in October 2001 the Administration conducted a public consultation exercise, as reported in TechWatch Issue No.1. The Society's submission on the Consultation Document, which was reported in TechWatch Issue No. 2, may be accessed at the Society's website at < http://www.hksa.org.hk/professionatechnical/whatsnew/docs/copyright_review.pdf >.

The present Bill seeks to implement a number of recommendations, which include the following:

- Permanently suspending the legislative provisions which make it an offence to use pirated copies of copyright works in business except as they apply to the "Four Categories of Works";
- Removing the phrase "in connection with" from the expression "for the purpose of, in the course of, or in connection with, any trade or business" where it appears in the Copyright Ordinance;
- Removing civil and criminal liabilities for parallel importing of copies of copyright works other than computer software, and for possessing, exhibiting in public and distributing such goods for use in the person's business*. Civil and criminal liabilities still apply where, for example, such goods are imported or possessed for sale or hire, or for distributing them for profit

or financial reward or to such an extent as would prejudicially affect the copyright owner;

- Providing a new defence against criminal liability for employees possessing infringing copies of works belonging to the Four Categories of Works, where the possession occurred in the course of his employment and the infringing copies were provided to them by or on behalf of their employer; and
- Creating a new offence targeting copy-shops by providing that a person engaged in a commercial copying service will commit an offence if he possesses two or more substantially identical infringing copies of a copyright work as published in a book, magazine or periodical.

The Bill may be accessed and downloaded at < http://www.legco.gov.hk/yr02-03/english/bills/brief/b30_brf.pdf >. The Society's Expert Panel on Legal Matters is considering the Bill.

Note

* The Copyright (Amendment) Bill 2001, which is currently also being considered by LegCo, deals with the related question of the parallel importation of computer software. ["Parallel importation" refers generally 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 and which is therefore not a pirated copy.] This Bill removes the civil and criminal liabilities in relation to the parallel importation of, and subsequent dealings in, computer software under the Copyright Ordinance (as reported in TechWatch Issue No.8). The Society's submission on this Bill may be accessed at < http://www.hksa.org.hk/professionalttechnical/whatsnew/docs/copyright_bill2001.pdf >. In the submission, the Society expressed support for the changes which are in line with developments taking place in a number of other jurisdictions. However, we understand that some objections to the Bill have been raised by the information technology sector.

National Security (Legislative Provisions) Bill 2003 Introduced To Implement Article 23 Of The Basic Law

Pursuant to the obligation imposed by Article 23 of the Basic Law (BL) on the Hong Kong SAR, the National Security (Legislative Provisions) Bill 2003 (the "Bill") was introduced into LegCo to amend the Crimes Ordinance (Cap.200), the Official Secrets Ordinance (Cap.521) and the Societies Ordinance (Cap.151), etc. to provide for the following:

- (a) the offences of treason, subversion, secession and sedition;
- (b) the prohibition of unauthorised disclosure of certain official information;
- (c) the proscription of certain organisations if national security so warrants.

A summary of the basic offences contained in the Bill may be accessed at the HKSA website at < http://www.hksa.org.hk/professionalttechnical/whatsnew/docs/national_security_bill.pdf >.

Whilst none of the provisions of the Bill is aimed directly at or intended to have a substantial impact on professionals, there may be incidental effects given the breadth and/or vagueness of certain of the provisions of the Bill. It is clear however that professionals will need to be increasingly vigilant in future in conducting their professional work and clients' affairs, given the legal and regulatory developments in areas such as financial services compliance, anti-money laundering and anti-terrorism as well as national security.

For a more detailed examination and analysis of some of the possible implications of this particular Bill, please go to < http://www.hksa.org.hk/professionalttechnical/whatsnew/docs/national_security_note.pdf >.

Revised Land Titles Bill Introduced

The long-awaited revised Land Titles Bill has been introduced into the LegCo for the implementation of the title registration system. The proposed

system will generally dispense with the need to review the historical title deeds to establish title under the existing deeds registration system, and replace this with title register which will provide conclusive evidence of an owner's title to land. A similar system has been in operation for some years in the United Kingdom and elsewhere. The Society has previously expressed concerns over various issues during the course of the long drafting history of this proposed legislation. Most of these appear to have been dealt with in the Bill. However, certain matter still remaining outstanding or unclear.

Amongst the concerns that the Society raised initially was the need for historical records, not merely information on current registered interests, to be made available e.g. for the purposes of conducting company audits. The revised Bill provides in future for historical records to be maintained in microfilm or other formats, but it does not make it clear that former records of ownership under the system of title deeds must still be retained. This point, amongst others, has been made in the Society's submission on the revised Bill.

The main features of the proposed title registration system include the following:

- The title register will be conclusive evidence of title to property. The registration of a person as the owner of land shall vest the title of the land in him.
- When a purchaser acquires a property for value and in good faith and is registered as the owner in the title register, he will be recognised by law as the owner, and his title will generally not be defeasible.
- When the Bill comes into operation, property will be brought under the title registration system progressively rather than in a once and for all exercise, i.e. what has been referred to as a "midnight conversion". This was one of the issues on which the Society previously commented suggesting that a midnight conversion could be more problematic than a gradual conversion. Under the procedures in the Bill, land will be brought into the new

system upon registration of (i) a first assignment of the property after implementation of the Bill; (ii) a new issue of the Government lease; or (iii) following a voluntary application by an owner. Properties which are not brought under the title registration system will remain on the existing deeds registration system.

- A person suffering loss of ownership because of fraud, or loss due to mistake or omission of the Land Registry staff, will be eligible for compensation, unless the person contributed to or was aware of the fraud. An upper limit of HK\$30 million is proposed to be imposed on the indemnity payable in each fraud case.
- Certain rights over land, such as rights of way, easements (e.g. for utility companies to maintain facilities on the land), Chinese custom or customary rights, rights of adverse possession or statutory rights for resumption, known as "overriding interests", will not need to be registered but will still have effect over the land. The Bill now limits the overriding interests that can be asserted over property, which is also something that the Society advocated in previous submissions.

The Bill may be accessed at the LegCo website at < http://www.legco.gov.hk/yr02-03/english/bills/brief/b28_brf.pdf >. The Society's submission on the Bill may be accessed at the HKSA website at: < http://www.hksa.org.hk/professionalttechnical/whatsnew/docs/land_titles_bill.pdf >.

Corporate Restructuring & Insolvency

Labour Department Warn Against Abuse Of The Protection Of Wages On Insolvency Fund

When an employer becomes insolvent and has a bankruptcy/winding-up petition presented against him, affected employees who are owed wages, wages in lieu of notice and severance payment can apply to the Protection of Wages on Insolvency Fund (PWIF) for ex-gratia payment. The PWIF is set up to provide timely economic relief to these employees, so as to alleviate their financial difficulties. The PWIF is financed by

an annual levy of \$600 on each business registration certificate issued.

The Wage Security Unit of the Labour Department of the Hong Kong SAR Government has recently published a leaflet entitled "Do not abuse the Protection of Wages on Insolvency Fund", which may be accessed at the Labour Department website at < <http://www.info.gov.hk/labour/public/wcp/PWIF.pdf> >.

According to the Labour Department, it has put in place stringent mechanisms for vetting all PWIF applications to prevent possible abuse of the PWIF. Under section 19 of the Protection of Wages on Insolvency Ordinance (PWIO), officers of the Labour Department may make inquiries for the purpose of verifying a PWIF application by: (a) requiring the applicant, his employer, the employer's representative, or any other employee, to attend interviews; and (b) requiring the applicant, the employer or any other parties in possession of relevant wage or employment records to produce such records for inspection.

Under sections 25 and 26 of the PWIO, any person who, in providing information in respect of a PWIF application, recklessly or knowingly makes a false statement, or produces any false documents or records with the intent to deceive, commits a prosecutable offence. According to the Labour Department, prosecutions will be taken out against any person who has provided false information in connection with his application. Separately, the PWIF Board will take action to recover any ex-gratia payment made.

The Labour Department has also indicated that it will refer any cases of suspected offences relating to fraud or conspiracy to defraud to the Police or any other relevant departments for investigation.

Any members who wish to report suspected cases of abuse of the PWIF or have any queries concerning the above matters should contact the Wage Security Unit of the Labour Department at 2923 5299.

Taxation

Using Password And Telephone In Filing Eligible Individual Or Property Tax Returns

The Inland Revenue (Amendment)(No.2) Ordinance 2001, which seeks to provide a legal basis for the use of passwords and telephones in filing tax returns, has been passed by the Legislative Council.

With effect from this year of assessment, taxpayers can file straightforward individual and property tax returns through a telephone or the internet under the Electronic Service Delivery (ESD) Scheme by using a password (commonly known as personal identification number (PIN)). Electronic filing of tax returns with the use of digital signatures is already provided for in the Electronic Transactions Ordinance.

According to a letter from the Commissioner of Inland Revenue (a copy of which can be accessed and downloaded at < http://www.hksa.org.hk/professionalttechnical/whatsnew/docs/online_filing.pdf >, a taxpayer is required to register with the Inland Revenue Department (IRD) as a TeleTax user in order to use the new electronic filing service. The taxpayer will then be allotted a Taxpayer Identification Number (TIN) and an Access Code to activate the TeleTax service by registering in the system a password of the taxpayer's own choice. The taxpayer will use his or her TIN and password for authentication and signature purposes when filing tax return by telephone or under the ESD Scheme. As members were informed through the "What's New" section of the Society's website, the IRD indicated that taxpayers who wished to ensure that they could file eligible individual or property tax returns through the telephone or the internet in April/May this year were requested to submit a TeleTax Registration Form (which may be downloaded at < <http://www.info.gov.hk/ird/chi/pdf/ir6104.pdf> >) to the IRD on or before 15 April 2003.

While the options of electronic filing or telephone filing using password may be convenient for some taxpayers, members should be aware that there are increased security risks inherent in this form of filing as opposed to electronic filing using a digital signature. There are also issues of liability under the Inland Revenue Ordinance as amended, section 2(5) of which treats submission of a return using a password or telefiling as the equivalent of submitting a paper return. The Society raised some concerns about such matters when commenting on the Inland Revenue (Amendment) (No.2) Bill 2001. The Society's submissions relating to the Bill can be viewed on-line at <http://www.hksa.org.hk/professionalttechnical/whatsnew/docs/ir_amendment2001.pdf>.

New IRD Arrangement Introduced For The Electronic Filing Of Corporate Profits Tax Returns

As reported in TechWatch (Issue No.3, March 2002), the Society previously expressed concerns over, inter alia, certain aspects of the e-versions of the corporate profits tax return (BIR 51) and filing, in particular in relation to the potential implications of the requirement for auditors to digitally sign the tax form, when attaching the audited accounts to the e-form.

The Inland Revenue Department (IRD) has recently introduced a new arrangement whereby the signing by an auditor in the corporate profits tax return (e-BIR 51) is no longer required. To confirm that the audited accounts attached to the e-BIR 51 are a true copy of the manually signed audited accounts of the taxpayer, the auditor will affix his or her digital signature in a

new electronic form (e-BIR 51A), which has been developed for this purpose. The new arrangement will help to clarify the role and responsibility of the auditor and of the taxpayer respectively with respect to the tax return. Both the e-BIR 51 and e-BIR 51A can be accessed at the IRD website at <<http://www.info.gov.hk/ird/eng/ese/efo.htm#pf>>.

Commissioner Urges Tax Representatives To Register For IRD's E-mail Notification Service

We have previously informed members through TechWatch (Issue No.1, December 2001) that the Inland Revenue Department (IRD) had established an e-mail service to advise interested parties whenever a new IRD Departmental Interpretation and Practice Note (DIPN) or Circular Letter was issued. In conjunction with this service, IRD phased out the issuing of paper copies of DIPNs in April 2002. The Commissioner of Inland Revenue has recently informed us that, in future, the annual Block Extension Circular Letter will also be published on the IRD website and paper copies of this will also no longer be issued. Members, particularly those who are tax representatives, who have not registered for IRD's email notification service would be advised to do so as soon as possible. To register for this service, an applicant should email to <taxpf@ird.gov.hk>, providing (a) the name of the firm, (b) business registration number (c) e-mail address to which IRD e-mail should be sent, and (d) the name and telephone number of the contact person. IRD will issue acknowledgements of successful registration by e-mail.

Comment Key Dates	
Date	Subject
6 June 2003	<p>HKSA Invitation to Comment on IAASB's Exposure Drafts:</p> <p>(1) Proposed International Framework for Assurance Engagements and Proposed International Standard on Assurance Engagements 2000 "Assurance Engagements on Subject Matters Other Than Historical Financial Information".</p> <p>(2) Proposed amendments to International Auditing Practice Statement 1005 "The Special Considerations in the Audit of Small Entities".</p> <p>The HKSA Invitation to Comment has been posted on the HKSA's website at: << http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/index.php >>.</p>
15 July 2003	<p>Exposure Draft (ED) of a Proposed Preface to Hong Kong Financial Reporting Standards and Accounting Guidelines which has been posted on the HKSA website at: << http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/ >>.</p>
<p>Please send comments to <<commentletters@hksa.org.hk>></p>	

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Financial Accounting Standards Committee **Meeting summary - March 2003**

The Society's Financial Accounting Standards Committee (Committee) met on 12 March 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Paul F. Winkelmann (Deputy Chairman), Edward K.F. Chow, William Crowe, Raphael Ding, Tommy Fung, Robert Gibson, Philip Hilliard, Nigel Reid, Stephen Taylor, Ms. Susanna Lau, Ms. Olivia Cheung, Ms. Sally Wong, Mr. Simon Riley (HKSA Deputy Director, Accounting) and Ms. Elsa Ho (HKSA Assistant Director, Accounting).

The Committee discussed the following items:

- ✓ Proposed revision of SSAP 13, Accounting for Investment Properties, based on IAS 40, Investment Property
- ✓ Proposed ED/Preface - consideration of legal advice
- ✓ Proposed Revised Framework for the Preparation and Presentation of Financial Statements
- ✓ Proposed SSAP based on IAS 29, Financial Reporting in Hyperinflationary Economies
- ✓ IASB's ED 3, Business Combinations
- ✓ SSAP 34 treatment of Long Service Payments
- ✓ Profits tax rate change announcement - impact on deferred tax in 31 December 2002 financial statements

Proposed revision of SSAP 13, Accounting for Investment Properties, based on IAS 40, Investment Property

The Committee agreed to proceed with proposals to revise SSAP 13 based on IAS 40, but without adopting the IAS 40 treatment of reporting changes in fair value through the income statement.

The Committee also noted that the revision of SSAP 13 based on IAS 40 would allow the 'transfer between categories of assets' provisions currently appearing in SSAP 17, which have given rise to implementation issues, to be removed from SSAP 17 and included in SSAP 13.

Proposed ED/Preface - consideration of legal advice

The Committee considered the advice received from the lawyer, specifically on proposed paragraphs 35 and 36 and the suggested revision of certain wording used in paragraph 19 of the proposed ED/Preface. Subject to a replacement of a certain Latin term used with some "plain English" wording, the Committee accepted all the changes proposed to the Committee's suggested revised wording. However, the Committee agreed that some clarification should be sought from the lawyer during the consultation period on the rationale behind proposing the revision to paragraph 19. Accordingly, the ED/Preface to be issued would not take into account the proposed change to paragraph 19 but the issue would be considered further at the conclusion of the comment period and after consulting with the lawyer.

Following from the Committee's previous decision that future accounting statements based on International Financial Reporting Standards would be named "Hong Kong Financial Reporting Standards" (HKFRS) rather than SSAPs, the Committee agreed that a statement should be added to the ED/Preface stating, when a reference is made to HKFRS, it would include SSAPs and this would continue to apply until SSAPs are completely superseded by HKFRS.

The Committee agreed to recommend that the ED/Preface be exposed for a three-month consultation period. Once issued, the ED/Preface will be available on the HKSA website at < <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft> >.

Proposed Revised Framework for the Preparation and Presentation of Financial Statements

The Committee considered three comment letters received in respect of the Exposure Draft of a Proposed Revised Framework for the Preparation and Presentation of Financial Statements (“Proposed Revised Framework”).

The comment letters raised substantive points in relation to the alignment of the Hong Kong Framework with the current version, but outdated, IASB Framework and the recognition that a wide range of users would use financial statements for making economic decisions.

In view of the Society’s convergence policy and given there is no fixed timetable for the revision of the IASB Framework, the Committee did not consider the points raised should necessitate a change to the Proposed Revised Framework. The Committee also noted that an article would be published in The Hong Kong Accountant following promulgation of the revised Framework:

- (a) to highlight the reasons for revising the Framework; and
- (b) to advise the likelihood of further revision being made to the Framework pending the IASB’s concepts projects currently in progress.

The Committee agreed to recommend that Council approve the Proposed Revised Framework, unamended from the exposure draft.

Proposed SSAP based on IAS 29, Financial Reporting in Hyperinflationary Economies

The Committee noted that one comment letter was received in respect of the Exposure Draft of a Proposed SSAP based on IAS 29, Financial Reporting in Hyperinflationary Economies. The comment letter will be made available on the HKSA website.

Since the proposed SSAP has taken into account the consequential amendments to IAS 29 proposed in the IASB’s Improvements Exposure Draft, the Committee agreed to hold the proposed SSAP in abeyance until the finalisation of the IASB’s Improvements Exposure Draft before seeking Council’s approval to issue the proposed SSAP as a final Statement.

The Committee agreed that an article should be prepared to give direction on where to look for information about which economies are considered to be hyperinflationary.

IASB’s ED 3, Business Combinations

The Committee continued its deliberation of an initial draft comment letter on ED 3. The Committee agreed that a sub-group would convene prior to the end of March to consider comments received on the Committee’s Invitation to Comment and to finalise the Society’s comment letter to the IASB.

SSAP 34 treatment of Long Service Payments

The Committee considered a matter raised over the classification of long service payments as “other long-term employee benefits” as required currently under SSAP 34 paragraph 162.

The Committee agreed that, according to their nature, long service payments should be accounted for as “post employment benefits”. The Committee noted that the main difference between this and treatment as “other long-term employee benefits” is that the latter does not allow preparers to take advantage of the “corridor” provision and the transitional provision as available for “post employment benefits” under paragraphs 92 and 155 of SSAP 34.

The Committee agreed to make appropriate changes to paragraph 162 of SSAP 34 effective for accounting periods beginning on or after 1 January 2003.

Profits tax rate change announcement - impact on deferred tax in 31 December 2002 financial statements

The Committee agreed to publish a bulletin in the next available TechWatch that the proposed change in profits tax rate from 16% to 17.5% announced on 5 March 2003 should be treated as a non-adjusting event for calculating deferred tax for financial statements covering periods ending before that date.

Date of Next Meeting

The Committee's next meeting is tentatively scheduled to be held on 11 April 2003.

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

The IASB publishes summaries of its meetings and projects. These can be found on the IASB's website at < <http://www.iasb.org.uk> >.

The Committee welcomes comments on its technical agenda. Please e-mail us at < commentletters@hksa.org.hk >.

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Upcoming CPD Programmes for HKSA Members

Date	Topic
06 May Tue	Transfer Pricing & Tax Risk Management
16 May Fri	Individual Voluntary Arrangements (IVAs)
17 May Sat	Delegation (MDC Workshop)
19 May Mon	Convergence with International Standards on Auditing
27 May Tue	在中國設立公司、代表處、分行等
29 May Thu	Risk Management from an Information Technology Services Perspective

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.

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