

*This is the 17<sup>th</sup> 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](mailto: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/> >.*

*Members have been informed by a circular dated 18 September 2003 that TechWatch has been incorporated into The Hong Kong Accountant, and will no longer appear in printed form as a publication in its own right. If you have previously elected to receive only the printed version of TechWatch, you will need to refer to The Hong Kong Accountant for future issues. Electronic version will be published on the HKSA website generally prior to publication in The Hong Kong Accountant. If you are currently not receiving the electronic edition of TechWatch but would like to receive it in future, you may choose to do so by entering this 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](mailto:karen_moy@hksa.org.hk) > or Tel: 2287 7089.*

## **Headlines Of This Issue**

### **Accounting & Financial Reporting**

1. FASC Issued Invitation To Comment On IASB Exposure Drafts: -
  - IASB ED 5, "Insurance Contracts" [Comment deadline: 10 October 2003]
  - IASB ED, "Proposed Amendments To IAS 39, Financial Instruments: Recognition And Measurement – Fair Value Hedge Accounting For A Portfolio Hedge Of Interest Rate Risk" [Comment deadline: 31 October 2003]
  - IFRIC Draft Interpretation: D2, "Changes In Decommissioning, Restoration And Similar Liabilities" [Comment deadline: 20 October 2003]
2. FASC Meeting Summaries – 20 June 2003 And 13 August 2003

### **Audit & Assurance**

3. AASC Issued Invitation To Comment On IAASB Exposure Drafts Regarding Auditor's Responsibility to Consider Fraud (Revised ISA 240) And Audit Planning (Revised ISA 300)
4. HKSA Comments On IAASB Quality Control Exposure Draft – New ISQC 1 & Revised ISA 220
5. AASC Meeting Summary – 17 June 2003

### **Listing & Securities**

6. HKSA Comments On SEHK/SFC Consultation Paper On The Regulation Of Sponsors And Independent Financial Advisers

### **Corporate Governance**

7. HKSA Best Corporate Governance Disclosure Awards Announcement Of Results At The HKSA 30<sup>th</sup> Anniversary Dinner on 11 November 2003
8. Consultation On Proposal To Empower The Securities And Futures Commission To Initiate A Derivative Action On Behalf of A Listed Company

### **Innovation & Technology**

9. Member Innovation & Technology

### **Corporate Restructuring & Insolvency**

10. The Deposit Protection Scheme Bill Seeks To Provide Compensation To Depositors In A Bank Failure
11. The MPFA Reminds Liquidators That Unpaid Contributions And Surcharges Due By Wound Up Companies And Bankrupts Are Preferential Payments
12. The Government Consults On Proposed Trust Account Arrangement Under The Companies (Corporate Rescue) Bill
13. INSOL International Launches Cross-border Insolvency Guide To Recognition And Enforcement

### **Legislation & Government Initiatives**

14. The Government Consults On Proposals To Adopt A System Of No-par Value Shares In Hong Kong
15. Companies Registry Announces Availability Of The Register Of Charges For Search

### **Taxation**

16. Annual Meeting Between IRD And HKSA – 2003 – Minutes Now Published
17. Hong Kong Tax Cases Volume 5 2<sup>nd</sup> Supplement Now Available For Sale

### **Comment Key Dates**

### **Members Ask**

### **Appendices**

- (i) Auditing And Assurance Standards Committee Meeting Summary – June 2003
- (ii) Financial Accounting Standards Committee Meeting Summary – June 2003
- (iii) Financial Accounting Standards Committee Meeting Summary – August 2003

## **Accounting & Financial Reporting**

### **1. FASC Issued Invitation To Comment On IASB Exposure Drafts:-**

- **IASB ED 5, “Insurance Contracts” [Comment deadline: 10 October 2003]**

The International Accounting Standards Board (IASB) has published for public comment an exposure draft, ED 5, “Insurance Contracts”.

The proposals in ED 5 are a first step towards improving insurance accounting practices. At present there is no International Financial Reporting Standard that addresses insurance contracts, and insurance contracts are excluded from some existing standards that would otherwise be relevant. Furthermore, accounting for insurance contracts varies widely throughout the world and is often inconsistent with accounting practices for other industries.

The HKSA Financial Accounting Standards Committee (FASC) has issued an Invitation to Comment on the IASB’s exposure draft with comments requested by 10 October 2003.

- **IASB ED, “Proposed Amendments To IAS 39, Financial Instruments: Recognition And Measurement – Fair Value Hedge Accounting For A Portfolio Hedge Of Interest Rate Risk” [Comment deadline: 31 October 2003]**

The IASB has published for public comment an exposure draft, “Proposed Amendment to IAS 39, Financial Instruments: Recognition and Measurement - Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk”.

The Exposure Draft contains proposals to improve the implementation of IAS 39, “Financial Instruments: Recognition and Measurement”. If adopted the proposals would enable fair value hedge accounting to be used more readily for a portfolio hedge of interest rate risk (sometimes referred to as ‘macro hedging’). The Exposure Draft retains the basic principles behind IAS 39 while aiming to reduce the cost of compliance.

The FASC has issued an Invitation to Comment on the IASB’s exposure draft with comments requested by 31 October 2003.

- **IFRIC Draft Interpretation: D2, “Changes In Decommissioning, Restoration And Similar Liabilities” [Comment deadline: 20 October 2003]**

The IASB’s International Financial Reporting Interpretations Committee (IFRIC) has published for public comment a Draft Interpretation: D2, “Changes in Decommissioning, Restoration and Similar Liabilities”.

The proposed Interpretation contains guidance on accounting for certain changes in decommissioning, restoration and similar liabilities that are recognised both as part of the cost of an item of property, plant and equipment in accordance with IAS 16, “Property, Plant and Equipment” and as a liability in accordance with IAS 37, “Provisions, Contingent Liabilities and Contingent Assets” (equivalent to SSAP 17 and SSAP 28 respectively).

The FASC has issued an Invitation to Comment on the draft Interpretation with comments requested by 20 October 2003.

All of the above Invitations to Comment have been posted on the HKSA's website at < <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/> > and a copy of each ED has been sent to HKSA members and others who are on the Members' Handbook (paper version) mailing list and other interested parties.

Under the HKSA's due process for setting accounting standards, and following from the IASB's final approved Standards, the FASC intends to recommend the adoption of new Hong Kong Financial Reporting Standards and Interpretations so that the HKFRSs and Interpretations maintain conformity with the IASB's Standards and Interpretations. The FASC does not intend to issue specific Hong Kong exposure drafts on the matters covered in the IASB exposure drafts.

## **2. FASC Meeting Summaries – 20 June 2003 And 13 August 2003**

The FASC met on 20 June 2003 and 13 August 2003 and discussed the following items:

- ✓ Proposed ED/SSAP 13, Investment Property (revised)
- ✓ Rights of Use
- ✓ Real Estate Investment Trusts
- ✓ Referral to Auditing & Assurance Standards Committee – proposed amendment to the wording of an auditor's report
- ✓ Proposed HKFRS 1, First-Time Adoption of Hong Kong Financial Reporting Standards
- ✓ Proposed Preface to Hong Kong Financial Reporting Standards

A copy of the June and August meeting summaries are attached to this issue of TechWatch. The meeting summaries have also been posted on the HKSA website at:

< <http://www.hksa.org.hk/professionaltechnical/accounting/fascupdate> >.

### **Audit & Assurance**

## **3. AASC Issued Invitation To Comment On IAASB Exposure Drafts Regarding Auditor's Responsibility To Consider Fraud (Revised ISA 240) And Audit Planning (Revised ISA 300)**

The International Auditing and Assurance Standards Board (IAASB) has issued for public consultation Exposure Drafts of Proposed Revised ISA 240 "The Auditor's Responsibility to Consider Fraud In An Audit Of Financial Statements" and Proposed Revised ISA 300 "Planning The Audit".

The ED of proposed revised ISA 240:

- deals only with the auditor's responsibility to consider fraud in an audit of financial statements and proposes that the specific guidance with respect to error will be moved to other ISAs;
- describes the two types of fraud that are relevant to the auditor – misstatement resulting from misappropriation of assets and misstatements resulting from fraudulent financial reporting; and
- describes the respective responsibilities of those charged with governance and the management of the entity for the prevention and detection of fraud, and sets out responsibilities of the auditor with respect to fraud.

The ED of proposed revised ISA 300:

- discusses the requirement for the auditor to develop an "overall audit strategy" and an "audit plan" to replace the concepts of "overall audit plan" and an "audit program". These are new concepts reflecting the need for the auditor to make strategic audit decisions and to develop work

plans that reflect the design and performance of all audit procedures, including the performance of risk assessment procedures; and

- sets out the audit plan to begin by planning risk assessment procedures and once these procedures have been performed, it is updated and changed to reflect the further audit procedures needed to respond to the results of the risk assessments.

In accordance with the HKSA's ISA Convergence Due Process, the HKSA Auditing and Assurance Standards Committee (AASC) has issued an Invitation to Comment to request the views of members and interested parties on the IAASB EDs in preparing the HKSA's submission to the IAASB. The Invitation to Comment and the IAASB EDs have been posted on the HKSA's website at:

[http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/invitation\\_to\\_comment1015.pdf](http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/invitation_to_comment1015.pdf).

Members and interested parties are requested to submit their comments on the IAASB EDs to the HKSA on or before 15 October 2003 so that they can be considered and included in the HKSA's submission to the IAASB.

Upon finalization of the IAASB EDs, the AASC intends to adopt them as local standards so that Hong Kong Auditing and Assurance Standards maintain conformity with current International Auditing and Assurance Standards at all times.

#### **4. HKSA Comments On IAASB Quality Control Exposure Draft – New ISQC 1 & Revised ISA 220**

The HKSA made a submission on the IAASB Quality Control Exposure Draft. The submission expressed general support of the Exposure Draft which included the proposed new ISQC 1 "Quality Control for Audit, Assurance and Related Services Practices" that deals comprehensively with a firm's quality control practices in the areas of audit, assurance and related services and the proposed revised International Standard on Auditing (ISA) 220 "Quality Control for Audit Engagements" that establishes standards and provides guidance on specific quality control procedures for audit engagements.

The HKSA believes that the Exposure Draft is a major improvement over the extant ISA 220, which only deals with audits of historical financial statements and covers both the firm (but only in an audit of historical financial statements context) and the individual audit engagement.

The Exposure Draft will undoubtedly lead firms to reflect on whether their quality control policies and procedures are robust and comprehensive, and will help to both clarify and reinforce the roles and responsibilities of engagement partners and teams and engagement quality control reviewers in delivering quality audit, assurance and related services. The HKSA considers this is important in strengthening the public's trust in the profession. However, the implementation of both ISQC 1 and revised ISA 220 may result in increased work effort by firms and engagement teams. In addition, firms and professional bodies will need to consider the training requirements that may result from the proposed Standards.

The HKSA also made a number of specific comments on the Exposure Draft specifically in relation to the issue of auditor independence. HKSA expressed the view that "rotation of audit partners" is only one of the ways, and not the only way to address the risk of familiarity threat as a result of a long audit/client relationship between the auditor and its client. This relationship, however, in many instances, works to the benefit of, rather than to the detriment of, the quality and effectiveness of the audit.

Having said that, in the case of financial statement audit of listed companies, HKSA is supportive of the IFAC Ethics Code's requirement for mandatory audit partner rotation after a specified period, and for the further requirement for firms to have policies and procedures in place to comply with this requirement, as set out under paragraph 25 (a) of the proposed ISQC 1. The HKSA is of the view that this helps to increase the Profession's perception of independence, expected of auditors of listed companies, as expressed by market regulators worldwide in the public interest.

It further considers that the requirement should apply across the board for all listed company financial statement audits regardless of the size of firms who audit them. Accordingly, it suggests that consideration should be given to eliminate the flexibility afforded to 'smaller audit firms' under the IFAC Code (paragraph 8.153).

As for the proposal under paragraphs 25 (b) & (c) of the proposed ISQC 1 to extend the concept of audit partner rotation to financial statement audit of non-listed companies and all other assurance and related engagements, the HKSA expressed a few observations and reservations.

The HKSA Submission and the IAASB Exposure Draft can be viewed at:

< <http://www.hksa.org.hk/professionaltechnical/assurance/submission/index.php> >.

## **5. AASC Meeting Summary – 17 June 2003**

The meeting summary of the AASC meeting held in June 2003 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/assurance/aasc/index.php> >.

## **Listing & Securities**

## **6. HKSA Comments On SEHK/SFC Consultation Paper On The Regulation Of Sponsors And Independent Financial Advisers**

The HKSA submitted its comments on the Stock Exchange of Hong Kong Limited (the SEHK) and the Securities and Futures Commission (the SFC) Consultation Paper on Regulation of Sponsors and Independent Financial Advisers (IFAs) < <http://www.hkex.com.hk/> > which was published in May 2003.

The core proposals were summarized in the August 2003 issue of TechWatch.

The HKSA Submission expressed both support and reservations on a number of key areas:

- HKSA supports the idea of having a Code of Conduct to govern the work of Sponsors and IFAs but as there is already the SFC Code of Conduct for Financial Advisers, to the extent necessary, if any, the SFC Code of Conduct could be further developed. There should not be two sets of Code of Conduct.
- HKSA agrees with the concept that a Sponsor should not act for a new applicant or listed issuer from which it is "not independent". It agrees that a broad range of factors might impact on a Sponsor's ability to act independently and that the Sponsor should seriously consider the impact of these factors on its ability to act independently, and ensure adequate safeguards are in place to mitigate/eliminate the threat to independence to an acceptable level, to the satisfaction of the regulators, before accepting the appointment.

- Concerns were expressed however on a number of proposals relating to individuals, including (i) the proposal to maintain a “public” list of unacceptable individuals on the HKEx website; (ii) the proposed requirement to have four eligible supervisors which is considered over demanding; (iii) the proposed undertakings that are required to be given by Sponsors and IFAs, which are considered to be far too excessive and too draconian, in particular the need for eligible supervisors to give personal undertakings; the need for sponsors to give a public affirmation of the truthfulness and completeness of the “expert sections”; the proposal to require lead underwriters to sign responsibility statements like Sponsors; and the proposal for the IFAs to be satisfied that there are no grounds to believe that any information, expert advice or opinion relied on in relation to the transaction or arrangement are not true or omit a material fact.
- HKSA also expressed reservation on the need for an eligible supervisor to meet on-going significant transaction requirement post initial approval as an eligible supervisor, and considered that such status could be maintained by complying with a continuing professional development regime (just as accountants and lawyers do).

The HKSA Submission can be viewed at :

< <http://www.hksa.org.hk/professionaltechnical/listing/290803.pdf> >.

## **Corporate Governance**

### **7. HKSA Best Corporate Governance Disclosure Awards Announcement Of Results At The HKSA 30<sup>th</sup> Anniversary Dinner on 11 November 2003**

By the entry deadline date of 23 August 2003, 130 annual reports had been entered in this year’s Best Corporate Governance Disclosure Awards (“BCGDA”) competition, including 33 Hang Seng Index (HSI)-constituent companies, 87 non-HSI companies and 10 public sector/not-for-profit organisations.

As in previous years, awards will be presented in three categories, namely (1) HSI constituents, (2) Non-HSI listed companies and (3) public sector/not-for-profit organisations. As the aim of the BCGDA is not only to establish absolute benchmarks but also to encourage improvements, the Significant Improvement Award, added for the first time last year, has been extended to each of the three categories.

The review Panel has now completed its review of the annual reports of all entrants and has submitted a shortlist in each category for final judging by the panel of judges, based on the results of the Compliance and Quality Review exercises.

The Judging Panel is now in the process of assessing the short-listed annual reports, from which the Panel will determine the Diamond, Platinum and Gold Award in each category, as well as the winners of the Significant Improvement Award.

The results of the Awards will be announced in a press conference and the Awards presentation ceremony will be held at the Society’s 30<sup>th</sup> Anniversary Dinner scheduled for 11 November 2003. The Guest of Honour of the Dinner will be invited to present the awards.

## **8. Consultation On Proposal To Empower The Securities And Futures Commission To Initiate A Derivative Action On Behalf Of A Listed Company**

As reported in issue 16 of TechWatch (August 2003), the Securities and Futures Commission (SFC) and the Financial Services Branch (of the Financial Services and the Treasury Bureau) jointly issued a consultation paper on a proposal to empower the SFC to initiate a derivative action on behalf of a listed company.

At present under Hong Kong law there is no statutory derivative action available to (minority) shareholders, although a common law derivative action is possible. However, there are, potentially, various obstacles in the way of such an action, including the inability of shareholders to gain access to the information from the company to establish that misconduct, fraud, etc. has taken place, and the fact that, while the shareholders initiating the action have to fund the action themselves, it is the company, rather than the shareholders taking the action on its behalf, that stands to benefit from any resulting financial award.

In the Society's submission in response to the consultation exercise, the view was expressed that while there are pros and cons in relation to the proposal, a power in the hands of the SFC to initiate a derivative action should at most be in addition to, rather than instead of, a power in the hands of shareholders themselves. Furthermore, for various reasons, this would not be a good time to consider investing the SFC with such a power. Amongst the reasons for this view is the fact that a statutory derivative action for shareholders, which seeks to address some of the problems referred to above, has already been incorporated in the Companies (Amendment) Bill 2003, which has recently been introduced into LegCo. This needs to be brought into effect and given time to work. Secondly, as the consultation paper acknowledges, the SFC has just been granted expanded authority under the Securities and Futures Ordinance (SFO), including powers to intervene in third party actions. The dual filing process under the SFO should also give the SFC access to more information on which to base regulatory action. More time is needed, therefore, to assess the effectiveness of the SFC's existing powers before considering the merits of adding to those powers.

The Society's submission may be accessed at:

< <http://www.hksa.org.hk/professionaltechnical/corporategov/derivative.pdf> >.

## **Innovation & Technology**

### **9. Member Innovation & Technology**

The Member Innovation & Technology arm of the Society (MIT) was formed earlier this year with funding support from the Government's Professional Services Development Assistance Scheme. The MIT Mandate is to expand the scope of the Society's service offerings to members with the aim to advance the profession's competitiveness and open up new services and opportunities that match today's business and market needs.

An information folder containing the first three new services deliverables to members under this new membership support initiative was dispatched to local members and published on the HKSA website at < <http://www.hksa.org.hk/mit.php> > in early October.

The folder contained the Information Flyers and Invitations to attend the following three programmes:

1. Anti-Fraud Symposium - 25 October 2003
2. "Trust Services" Members' Information Forum - 29 October 2003 [Free]
3. A two-level Executive Certificate Training Programme on IT Risk Management - First course starting 15 November 2003 [Over 60 CPD hours]

An Anti-fraud Training CD titled "How Fraud Hurts You and Your Organization" was also distributed with the folder for member's use. Members are welcome to obtain further copies from the Society for promotion to their clients and associates. The training CD can also be downloaded or viewed online at < <http://www.hksa.org.hk/antifraud/antifraud.php> >.

## **Corporate Restructuring & Insolvency**

### **10. The Deposit Protection Scheme Bill Seeks To Provide Compensation To Depositors In A Bank Failure**

The Deposit Protection Scheme Bill (a copy of which may be accessed at the LegCo website at: < [http://www.legco.gov.hk/yr02-03/english/bills/brief/b48\\_brf.pdf](http://www.legco.gov.hk/yr02-03/english/bills/brief/b48_brf.pdf) >) seeks to provide for, inter alia, the establishment of:

- The Deposit Protection Scheme for the purpose of providing compensation to depositors in the event of a bank failure; and
- The Hong Kong Deposit Protection Board, which will be responsible for, e.g. establishing and maintaining the scheme, managing and administering the Deposit Protection Scheme Fund, deciding the entitlement of depositors and others to compensation, and paying compensation to depositors.

In response to the request from the Hong Kong Monetary Authority ("HKMA") for comments, the Society's Insolvency Practitioners Committee (IPC) raised concerns over certain aspects of the Bill in July 2003. The HKMA has replied to address such concerns. A copy of the relevant correspondence may be accessed at the Society's website at:

< [http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/deposit\\_protection\\_scheme.pdf](http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/deposit_protection_scheme.pdf) >.

### **11. The MPFA Reminds Liquidators That Unpaid Contributions And Surcharges Due By Wound Up Companies And Bankrupts Are Preferential Payments**

The Mandatory Provident Fund Schemes Authority ("MPFA") has written to the Official Receiver's Office to remind liquidators that when a company is wound up or a person is made bankrupt, any unpaid mandatory contributions and surcharges due by the company or bankrupt should be regarded as preferential payments. A copy of the MPFA's letter has been forwarded to the Society and may be accessed at the Society's website at:

< [http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/contributions\\_surcharges.pdf](http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/contributions_surcharges.pdf) >.

### **12. The Government Consults On Proposed Trust Account Arrangement Under The Companies (Corporate Rescue) Bill**

The Companies (Corporate Rescue) Bill, introduced into the Legislative Council in May 2001, aimed to establish a legal procedure for rescuing companies in financial difficulties, called "provisional supervision".

As reported in TechWatch (Issue No.1, December 2001), the Society and other parties, including the Hong Kong Association of Banks, were particularly concerned with the requirement under the Bill that, before provisional supervision may commence, a trust account must be set up containing all the Employment Ordinance liabilities for all employees who could be laid off. 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 proposed that the amounts required to be contained in the trust account should be capped to levels similar those payable under the Protection of Wages of Insolvency Fund ("PWIF"). The Society's submissions on

the Bill, dated 25 September 2001, and 9 November 2001, can be accessed at the HKSA website at:  
< [http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company\\_bill\\_250901.pdf](http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company_bill_250901.pdf) > and  
< [http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company\\_bill\\_091101.pdf](http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/company_bill_091101.pdf) >.

The Government has recently issued a consultation paper to explore the feasibility of capping the amount payable to each employee of a company in financial difficulty under the trust account arrangement. In the consultation paper, it is proposed, for example, to cap the sum payable under the trust account to each employee in respect of his entitlements accrued before the start of the corporate rescue procedure to the amount that would have been payable to that employee by the PWIF.

The Society's IPC is considering the consultation paper. Members will be informed of further developments on the matter.

### **13. INSOL International Launches Cross-border Insolvency Guide To Recognition And Enforcement**

INSOL International (International Federation of Insolvency Professionals) announced the launch of its new publication "Cross-border Insolvency Guide to Recognition and Enforcement", at its INSOL Las Vegas Conference on 22 September 2003. The publication is intended to assist practitioners with a general understanding of the law on cross-border recognition and enforcement in around 40 jurisdictions. It has been mailed to the 7,600 INSOL members around the world. INSOL can be contacted at 2-3 Philpot Lane, London, EC3M 8AQ, UK or through its website at < <http://www.insol.org> >. The publication can also be viewed at the website at < <http://www.insol.org/crossbord.htm> >.

## **Legislation & Government Initiatives**

### **14. The Government Consults On Proposals To Adopt A System Of No-par Value Shares In Hong Kong**

The Government commissioned the law firm of Freshfields Bruckhaus Deringer to prepare a Consultation Paper on whether Hong Kong should adopt a system of no-par value shares, as a certain other jurisdictions have done. The Society previously commented in 1998 on the prohibition on par value shares as proposed in the Consultancy Report on Review of the Hong Kong Companies Ordinance.

The Society has made a submission on the Consultation Paper. The main points of the submission are as follows:

- In principle, the Society supports the proposal to abolish par value shares, subject to clear rules being formulated on capital distribution by way of share repurchase or dividend, including a "solvency test".
- In line with its comments expressed in 1998, the Society believes that the solvency test should be clearly defined with proper benchmarks, for example, by reference to balance sheet solvency, income statement solvency and cash flow solvency, to ensure objectivity in the assessment of solvency. Further, there would need to be a firmly established procedure with an agreed reporting format and terms of reference for the proposal to be practicable.
- The capital maintenance rules contained in the Companies Ordinance, which include, e.g. the restriction on a company's ability to reduce subscribed capital once it has been raised, are underpinned by a system of share capital that is fashioned on the existence of par value, and should be simplified and streamlined as part of the proposal to adopt a no-par regime.

- Whilst it will no longer be necessary to distinguish between share capital and share premium on the adoption of a no-par regime, the Society believes that to allow existing companies to retain a share premium account, such that share premium can be distributed subject to an overriding solvency test (applicable to all distributions) as described, would obviate the need to take the radical step of requiring all existing companies to convert their par value shares to no-par value shares.
- It would be less disruptive to require only new companies to be incorporated with no-par value shares, and to allow existing companies the choice of whether to convert to no-par value shares.

A copy of the submission may be accessed at the Society's website at:

< <http://www.hksa.org.hk/professionaltechnical/whatsnew/docs/no-par%20value%20shares.pdf> >.

#### **15. Companies Registry Announces Availability Of The Register Of Charges For Search**

The Companies Registry announces that the process of sending out volumes of the Register of Charges to contractor for conversion into digitised format was completed on 19 September 2003 and that all volumes of the register are now available for search.

The announcement may be accessed at the Companies Registry's website at

< <http://www.info.gov.hk/cr/new/index.htm> >. Enquiries on the matter should be directed to the Companies Registry at its enquiry counter or at 2867 2578.

### **Taxation**

#### **16. Annual Meeting Between IRD And HKSA – 2003 – Minutes Now Published**

As part of the Society's regular dialogue with the Administration to facilitate tax compliance, improve procedural arrangements and to clarify areas of interpretation, representatives of the Society met with the Commissioner of Inland Revenue (CIR) and members of her staff in January 2003 to discuss practical and procedural matters in relation to the operation of the tax system.

As agreed by the CIR at the meeting, information on some of the more urgent matters, e.g. the tax deadlines for 2003/04, was released prior to finalisation of the minutes (in TechWatch Issue No.12 (February 2003)).

Formal minutes of the meeting, prepared by the Inland Revenue Department (IRD), were released recently. As part of the Society's strategy to adopt electronic media in its communication with members whenever possible, the final version of the minutes were reproduced electronically in August 2003 in a Tax Bulletin (TaxB 13), which may be viewed at the Society's website at < <http://www.hksa.org.hk/publications/bulletins/tax/tax.php> >.

#### **17. Hong Kong Tax Cases Volume 5 2<sup>nd</sup> Supplement Now Available For Sale**

Hong Kong Tax Cases Volume 5, 2<sup>nd</sup> Supplement is available for sale. The publication covers 15 cases from 2001 to December 2002 totalling some 380 pages.

Following the closing down of the Government Publications Centre in August 2003, the publication may be purchased by:

- calling the Publications Sales Section of the Information Services Department (ISD) at 2537 1910;
- visiting the online Government Bookstore at: < <http://bookstore.esdlife.com> >;
- downloading the order form from the ISD website at: < <http://www.isd.gov.hk> > and submitting the order online or by fax to 2523 7195; or
- placing order with the ISD by e-mail at:< [puborder@isd.gov.hk](mailto:puborder@isd.gov.hk) >.

### **Comment Key Dates**

<b><u>Date</u></b>	<b><u>Subject</u></b>
30 September 2003	<p>Hong Kong Invitation to Comment on IASB Exposure Draft: ED 4, “Disposal of Non-current Assets and Presentation of Discontinued Operations”, which has been posted on the IASB website at: &lt;<a href="http://www.iasb.org.uk">http://www.iasb.org.uk</a>&gt;. The ED is accompanied by the IASB’s Basis for Conclusions and draft illustrative examples. The Hong Kong Invitation to Comment has been posted on the HKSA website at: &lt;<a href="http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/">http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/</a>&gt;.</p> <p>[IASB deadline: 24 October 2003]</p>
10 October 2003	<p>Hong Kong Invitation to Comment on IASB Exposure Draft: ED 5, “Insurance Contracts”, which has been posted on the IASB website at: &lt;<a href="http://www.iasb.org.uk">http://www.iasb.org.uk</a>&gt;. The ED is accompanied by the IASB’s Basis for Conclusions and draft illustrative examples. The Hong Kong Invitation to Comment has been posted on the HKSA website at: &lt;<a href="http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/">http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/</a>&gt;.</p> <p>[IASB deadline: 31 October 2003]</p>
15 October 2003	<p>Hong Kong Invitation to Comment on IAASB Exposure Drafts of Proposed Revised ISA 240 “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” and Proposed Revised ISA 300 “Planning the Audit”, which has been posted on the HKSA website at: &lt;<a href="http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/invitation_to_comment1015.pdf">http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/invitation_to_comment1015.pdf</a>&gt;.</p> <p>[IAASB deadline: 15 November 2003]</p>
17 October 2003	<p>Hong Kong Invitation to Comment On IFAC Exposure Draft: Proposed Revised Code of Ethics for Professional Accountants, which has been posted on the HKSA’s website at: &lt;<a href="http://www.hksa.org.hk/professionaltechnical/ethics/exposedraft/invitation_to_comment_coe.pdf">http://www.hksa.org.hk/professionaltechnical/ethics/exposedraft/invitation_to_comment_coe.pdf</a>&gt;.</p> <p>[IFAC deadline: 30 November 2003]</p>

<u>Date</u>	<u>Subject</u>
20 October 2003	Hong Kong Invitation to Comment on IFRIC Draft Interpretation: D2, “Changes in Decommissioning, Restoration and Similar Liabilities”, which has been posted on the IASB website at: < <a href="http://www.iasb.org.uk">http://www.iasb.org.uk</a> >. The Hong Kong Invitation to Comment has been posted on the HKSA website at: < <a href="http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/">http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/</a> >.  [IASB deadline: 3 November 2003]
31 October 2003	Hong Kong Invitation to Comment on IASB Exposure Draft, “Proposed Amendment to IAS 39, Financial Instruments: Recognition and Measurement - Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk”, which has been posted on the IASB website at: < <a href="http://www.iasb.org.uk">http://www.iasb.org.uk</a> >. The Hong Kong Invitation to Comment has been posted on the HKSA website at: < <a href="http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/">http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/</a> >.  [IASB deadline: 14 November 2003]
Please send comments to < <a href="mailto:commentletters@hksa.org.hk">commentletters@hksa.org.hk</a> >	

#### **Members Ask**

*Q: Is a separate statement of changes in equity required when the only change to shareholders’ funds for the current and corresponding periods results from the appropriation of profit or loss to retained earnings?*

A: Being a separate component of the financial statements, the statement of changes in equity is a primary statement in its own right. Accordingly, it should not be included in the notes to the financial statements. Although not specified in SSAP 1, we believe the most appropriate place is after income statement, normally on a separate page. Such presentation is also consistent with that adopted in other jurisdictions that have a similar requirement. If, however, the only change in equity arose from the net profit or loss for the period, the statement - appropriately headed - could appear on the same page immediately below the income statement, per the following example:

#### INCOME STATEMENT (extract)

#### FOR THE YEAR ENDED 31 DECEMBER 20X2

Note	Group		Company	
	20X2	20X1	20X2	20X1
	HK\$’ 000	HK\$’ 000	HK\$’ 000	HK\$’ 000
Net profit for the period	45,080	38,707	31,181	17,296

## STATEMENT OF CHANGES IN EQUITY

Shareholders' funds at the beginning of the year	9	1,290,873	1,252,167	978,303	961,007
Net profit for the period		45,080	38,707	31,181	17,296
Shareholders' funds at the end of the year	9	<b>1,335,953</b>	<b>1,290,873</b>	<b>1,009,484</b>	<b>978,303</b>

Other than the net profit [loss] attributable to shareholders, the Group and Company had no changes in equity for the current or corresponding periods.

The accompanying notes form an integral part of these financial statements

A link to the above Q+A, and to other reference material on Hong Kong financial reporting matters, can be found on the HKSA website at

< <http://www.hksa.org.hk/professionaltechnical/accounting/rm> >.

*TechWatch is prepared by the Professional and Technical Department of the HKSA and intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Society endeavours to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted by the HKSA.*

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Mr. Stephen Chan, Deputy Director (Ethics & Assurance)  
Mr. Peter Tisman, Deputy Director (Business & Practice)  
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## **Appendices**

### **(i) Auditing and Assurance Standards Committee** **Meeting summary – June 2003**

The Society's Auditing and Assurance Standards Committee (Committee) met on 17 June 2003.

Members present at the meeting were: Wong Tak Wai, Alvin (Chairman), Charles Chow (Deputy Chairman), Richard George (Deputy Chairman), Deborah Annells, Andrew Bennett, Patrick Cheng, Kim Chong, William Crowe, Raymond Li, Man Mo Leung, Phyllis Mo, Paul F. Winkelmann and Desmond Yuen.

Secretariat staff present at the meeting were: Stephen Chan, Elaine Chan and Steve Ong.

The agenda items were:

1. Minutes of the April 2003 (246th) and May 2003 (247th) Meetings
2. Meeting Summaries of the April 2003 (246th) and May 2003 (247th) Meetings for publication
3. Documents approved by Council
4. Document for the Committee's ratification
5. HKSA Submission on the IAASB's Exposure Draft of Assurance Engagements
6. HKSA Submission on the IAASB's Exposure Draft of Proposed Amendments to IAPS 1005 "The Special Considerations in the Audit of Small Entities"
7. HKSAs Improvement Project
8. Draft proposed PN 852 "Review of lottery accounts"
9. Proposed publications on China audit matters
10. Date of next meeting

#### **1. Minutes of the April 2003 (246th) and May 2003 (247th) Meetings**

The Minutes of the 246<sup>th</sup> and 247<sup>th</sup> Meetings were approved by the Committee and signed by the Chairman.

#### **2. Meeting Summaries of the April 2003 (246th) and May 2003 (247th) Meetings for publication**

The Meeting Summaries of the 246<sup>th</sup> and 247<sup>th</sup> Meetings were approved by the Committee subject to some amendments to the 246<sup>th</sup> Meeting Summary.

#### **3. Documents approved by Council**

The Committee noted that Council had approved the issuance of Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care to Third Parties and The Audit Report", and the HKSA submission on the SFC Consultation Paper "The Draft Code on Real Estate Investment Trusts".

[The Professional Risk Management Bulletin No. 2 is available on-line at:

< <http://www.hksa.org.hk/professionaltechnical/riskmanagement/index.php> > and the HKSA submission on the SFC Consultation Paper is available on-line at:

< <http://www.hksa.org.hk/professionaltechnical/assurance/submission/reits.pdf> >].

#### **4. Document for the Committee's ratification**

The Committee ratified the issuance of the HKSA Invitation to Comment on the IAASB's Exposure Draft on Quality Control which had previously been endorsed by circulation.

[The HKSA Invitation to Comment is available on-line at:  
< <http://www.hksa.org.hk/professionaltechnical/assurance/exposedraft/index.php> >].

#### **5. HKSA Submission on the IAASB's Exposure Draft of Assurance Engagements**

Two submissions of comments were received.

The Committee was of the view that the proposed Framework as currently drafted would not be sufficiently helpful for practitioners and users to understand and in particular it failed to address the expectation gap of users reading a moderate level of assurance report. Given that a number of new terms have been introduced, the Committee considered that more guidance and clarifications should be provided in the final Framework in relation to the specific areas identified in order to facilitate a better understanding of the Framework for the performance of assurance engagements.

The Committee noted that the proposed ISAE 2000 merely outlined the key principles and procedures for the performance of assurance engagements on subject matters other than historical financial information. It was considered that the IAASB should consider developing a suite of pronouncements for ISAE engagements like the existing suite of ISA pronouncements for the audits and reviews of historical financial information, to provide further guidance and clarification to practitioners in the conduct of ISAE engagements.

The HKSA submission was prepared with reference to the comments received and on the basis of the above comments.

[The HKSA submission is available on-line at:  
< <http://www.hksa.org.hk/professionaltechnical/assurance/submission/index.php> >].

#### **6. HKSA Submission on the IAASB's Exposure Draft of Proposed Amendments to IAPS 1005 "The Special Considerations in the Audit of Small Entities"**

One submission of comments was received.

The HKSA submission was prepared with reference to the comments received which indicated a general support of the proposals.

[The HKSA submission is available on-line at:  
< <http://www.hksa.org.hk/professionaltechnical/assurance/submission/index.php> >].

#### **7. HKSASs Improvement Project**

The Committee considered the proposed revisions to the three HKSASs with exceptions stated in the paragraph "Compliance with International Standards of Auditing", and had the following comments:

- (i) HKSAS 150 (Subsequent events)

The Committee agreed that HKSAS 150 should be revised to converge fully with ISA 560 and that the additional guidance on "Facts discovered after the financial statements are laid before

the shareholders or equivalent” should be provided as the last section of the HKSAS with the heading “Additional guidance applicable to audits of companies incorporated in Hong Kong”.

(ii) HKSAS 230 (Documentation)

The Committee agreed that HKSAS 230 should be revised to converge fully with ISA 230. In relation to the question whether there is a need for the HKSA to prescribe the minimum period for the retention of audit working papers, the Committee agreed that this would be a risk management issue and accordingly, this matter should be referred to the Professional Risk Management Committee for consideration.

(iii) HKSAS 500 (Considering the work of internal auditing)

The Committee agreed that HKSAS 500 should be revised to converge fully with ISA 610.

The Committee agreed that, going forward, ISA wordings should be adopted as far as possible in Hong Kong. Any additional local guidance should be provided after the adopted ISA standards and guidance.

The Committee agreed that given the above three proposed revised HKSASs had guidance being upgraded to standards, these proposed revised HKSASs should be submitted to Council for approval for issuance as exposure drafts with a consultation period of two months together with the proposed revised HKSAS 450 once it is available.

**8. Draft proposed PN 852 “Review of lottery accounts”**

The Committee endorsed that subject to certain editorial changes, the proposed PN 852 be submitted to Council for approval for issuance as an Exposure Draft for a consultation period of two months.

**9. Proposed publications on China audit matters**

The Committee agreed that a Working Group should be set up with members drawn from the practising members of the Committee or their nominees to draft the proposed publications on China audit matters. It was also agreed that the Working Group should make a recommendation to the Committee on the form of the publications (i.e. whether they would be a new series of publications or a series of articles in the Hong Kong Accountant, etc.).

**10. Date of next meeting**

The Committee’s next scheduled meeting date is 22 July 2003.

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**This meeting summary is provided for the information and convenience of those who wish to follow the Committee’s deliberations. Decisions reported are tentative and may be changed or modified by the Committee at a later date. Decisions become final only after completion of the formal due process required to finalize and release documents. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this meeting summary, or for any errors or omissions in it.**

**(ii) Financial Accounting Standards Committee**  
**Meeting summary – June 2003**

The Society's Financial Accounting Standards Committee (Committee) met on 20 June 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Carlson Tong (Deputy Chairman), Chan Lok Sang, Edward K.F. Chow, Choy Chung-foo (represented by Mr. Vingle Yuen), William Crowe, Tommy Fung, Robert Gibson, Quinn Y.K. Law, Nigel Reid, Tommy Tam, Stephen Taylor, Mr. Simon Riley (HKSA Deputy Director, Accounting) and Ms. Elsa Ho (HKSA Assistant Director, Accounting).

The Committee noted that the Hong Kong Investment Funds Association had advised of its withdrawal from the Committee. The Committee discussed the following items:

- ✓ Proposed ED/SSAP 13, Investment Property (revised)
- ✓ Rights of Use
- ✓ Real Estate Investment Trusts
- ✓ Referral to Auditing & Assurance Standards Committee – proposed amendment to the wording of an auditor's report
- ✓ IFRS 1, First-Time Adoption of IFRS

**Proposed ED/SSAP 13, Investment Property (revised)**

The Committee continued its consideration of a proposed revision to SSAP 13, Accounting for Investment Properties. The proposed Exposure Draft is based primarily on IAS 40, Investment Property but proposes to carry forward a number of requirements presently found in SSAP 13, primarily concerning the treatment of valuation changes from one period to the next and the requirement to use an appropriately qualified independent valuer. The Committee had agreed that the present SSAP 13 treatment of changes in the value of investment property from one period to another should be retained until the IASB has finalised its proposals regarding the income statement. The Committee reconfirmed its earlier decision that the Exposure Draft would not be released for public comment until after the IASB had completed its deliberations on proposed improvements to IAS 17, Leases, and IAS 40, Investment Property, issued as part of the Improvements Project ED in 2002. The Committee agreed to further consider the proposed ED at its next meeting.

**Rights of Use**

The Committee considered a paper raising issues and providing technical discussion on the accounting treatment of transport infrastructure facilities, particularly in Mainland China. These facilities normally comprise 3 components: namely, operating rights, land use rights and transport infrastructure (for example toll road or tunnels). The Committee noted that different classifications and depreciation / amortisation methods are being adopted by transport infrastructure operators. Common practices are as follows:

- ✓ Operating rights are either included under fixed assets or separately classified as operating leases or intangible assets
- ✓ Land use rights are either included under fixed assets or separately classified as operating leases.
- ✓ Both sinking fund method and straight-line method are adopted for the amortisation of operating lease and intangible assets
- ✓ Sinking fund method is commonly adopted for the depreciation of fixed assets

The Committee agreed to refer this to the Urgent Issues and Interpretations Sub-Committee (UII) for further consideration. The Committee also suggested that the UII should assist in drafting a discussion paper which sets out all the related issues with a view to enlisting the Hong Kong representative on the

International Financial Reporting Interpretations Committee (IFRIC) to take these issues forward to the IFRIC for consideration.

### Real Estate Investment Trusts

The Committee noted that in March 2003 the Securities and Futures Commission (SFC) issued a Consultation Paper on The Draft Code on Real Estate Investment Trusts (REITs), which includes a number of financial reporting requirements and amongst which is that the REIT should conform to accounting standards set by the HKSA.

The Committee considered that some of the accounting requirements proposed under the Consultation Paper might not be consistent with the requirements under SSAPs. The Committee agreed that a meeting with the SFC should be arranged to explain the issues identified. The Committee also agreed that there would be a need to issue an accounting guideline on preparing financial statements for REITs after the SFC has finalised its proposals.

### Referral to Auditing & Assurance Standards Committee – proposed amendment to the wording of an auditor’s report

The Committee considered a query raised by the Auditing & Assurance Standards Committee as to whether by adopting the term “HKFRS” in place of “accounting principles generally accepted in Hong Kong” in auditors’ reports, as previously proposed by the Committee, would continue to impose an obligation for financial statements to be prepared with reference to the applicable Accounting Guidelines issued by the HKSA.

The Committee was of the view that, since Accounting Guidelines are persuasive in intent and are not mandatory on members of the HKSA, the proposed amendment to the wording of an auditor’s report would not affect the status of Accounting Guidelines. However, given that there are presently no SSAPs equivalent to IAS 32 and IAS 39, which are part of the core standards under IASs, the Committee considered that the proposed amendment should only be taken place after IAS 32 and IAS 39 have been introduced and become effective in Hong Kong.

### IFRS 1, First-Time Adoption of IFRS

The Committee noted that the IASB has recently approved the issue of IFRS 1, First-Time Adoption of IFRS. The Committee agreed to consider at its next meeting a proposed HKFRS 1, based on IFRS 1, with a view to recommending Council’s approval of the new Standard to become effective from 1 January 2004 – concurrently with the effective date of IFRS 1.

### Date of Next Meeting

The Committee’s next meeting is tentatively scheduled to be held on 13 August 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](mailto:commentletters@hksa.org.hk) >.

**(iii) Financial Accounting Standards Committee**  
**Meeting summary – August 2003**

The Society's Financial Accounting Standards Committee (Committee) met on 13 August 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Carlson Tong (Deputy Chairman), Choy Chung-foo (represented by Mr. Vingle Yuen), William Crowe, Raphael Ding, Tommy Fung, Philip Hilliard, Quinn Y.K. Law, Tommy Tam, Ms. Susanna Lau, Mr. Simon Riley (HKSA Deputy Director, Accounting) and Ms. Elsa Ho (HKSA Assistant Director, Accounting).

The Committee discussed the following items:

- ✓ Proposed HKFRS 1, First-Time Adoption of Hong Kong Financial Reporting Standards
- ✓ Proposed Preface to Hong Kong Financial Reporting Standards

**Proposed HKFRS 1, First-Time Adoption of Hong Kong Financial Reporting Standards**

The Committee considered the following documents that were based on the equivalent international statements:

- ✓ Proposed HKFRS 1
- ✓ Guidance on Implementing HKFRS 1
- ✓ Basis for Conclusions on HKFRS 1

The Committee considered all the drafting changes made to the equivalent international statements, which are necessary because Hong Kong is not yet fully converged with IFRSs, and agreed that wherever IFRS 1 or the Guidance on Implementing IFRS 1 contained a cross-reference to an IAS for which there is no equivalent SSAP, the text as found in the international statements should remain in the Hong Kong document and a footnote included to explain that a proposed SSAP based on the IAS is currently being exposed, if applicable, and, in accordance with paragraph 23 of SSAP 1, entities should consider the IAS when dealing with the relevant items. The Committee also agreed that the IASB's basis for conclusions on IFRS 1 should be reproduced as the basis for conclusions on HKFRS 1 but that an introduction be added to highlight that the Committee considered and agreed with the IASB's basis for conclusion and thus no material changes were made to the international statements when adopting them in Hong Kong.

The Committee tentatively agreed that proposed HKFRS 1 should become effective concurrently with IFRS 1 (that is, for periods beginning on or after 1 January 2004). In order to achieve this, the Committee would consider revised drafts after taking into account the above comments at its next meeting with a view to finalising them for issue in October.

**Proposed Preface to Hong Kong Financial Reporting Standards**

The Committee considered comments received from the following, in response to the Committee's Invitation to Comment on ED, Preface to Hong Kong Financial Reporting Standards ("Preface"):

- ✓ DTC Association
- ✓ Deloitte Touche Tohmatsu
- ✓ HK Association of Banks
- ✓ PetroChina Company Limited
- ✓ Securities and Futures Commission

The comment letters will be made available on the HKSA website:

< <http://www.hksa.org.hk/professionaltechnical/accounting/rm> >.

The Committee agreed to make a number of wording changes to the Preface in response to the comments received. The Committee would continue its discussion of the comments with a view to finalising the proposed Preface at its next meeting.

#### Date of Next Meeting

The Committee's next meeting is tentatively scheduled to be held on 10 September 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.

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