



STANDARDS & TECHNICAL

NEWS AT A GLANCE

TechWatch is 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 Stephen Chan, Technical Director (Ethics & Assurance) & Head of Standards & Technical Department Coordination [by email](#).

ISSUE 28 • SEPTEMBER/OCTOBER 2004

HEADLINES

Members' Handbook Update

1. [Update No. 7](#)

Technical Update Evening

2. [New TUE Programme](#)

Institute Of Chartered Accountants In England & Wales (ICAEW) Faculties

3. [Exclusive 3-Month Free Trial](#)

Financial Reporting

4. [HKICPA Issues Revised Preface To Hong Kong Financial Reporting Standards](#)
5. [Convergence Project Update](#)
6. [FASC Meeting Summary – 8 September 2004](#)

Audit & Assurance

7. [Adoption Of International Standards As Hong Kong Standards On Quality Control, Auditing, Assurance And Related Services](#)
8. [AASC Invites Comments On IAASB ED On Audit Documentation](#)
9. [AASC Invites Comments On IAASB ED On Proposed Policy Statement On Clarifying Professional Requirements In International Standards](#)
10. [AASC Meeting Summaries – 24 August And 21 September 2004](#)

Ethics

11. [HKICPA Invites Comments On IFAC ED Of Proposed Revised Code Of Ethics](#)

HEADLINES

Banking

12. [Challenge Facing Banks And Regulators Under Basel II](#)

Listing & Securities

13. [Consultation Conclusions Report On The Regulation Of Sponsors And Independent Financial Advisers](#)

Corporate Restructuring & Insolvency

14. [HKICPA Issues Exposure Draft Of Insolvency Guidance Notes](#)
15. [Bankruptcy \(Amendment\) Bill To Be Re-Introduced Into LegCo](#)

Taxation

16. [2005 Annual Meeting With The Commissioner Of Inland Revenue – Agenda Items Invited](#)
17. [HKICPA Submits Comments On The Estate Duty Review Consultation Document](#)

Legislation & Government Initiatives

18. [Companies Registry Issues Annual Report 2003-04 And Environmental Report 2003](#)
19. [Prospectus-Related Provisions Of Companies \(Amendment\) Ordinance 2004 To Commence On 3 December 2004](#)
20. [Companies \(Amendment\) Bill 2004 Re-Introduces Proposed Amendments To The Definition Of “Subsidiary”](#)

Innovation & Technology

21. [Controlling Computers In Business](#)

[Comment Due Dates](#)

TechWatch is prepared by the HKICPA Standards & Technical Department and intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the HKICPA 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 HKICPA.

The Technical Directors of the HKICPA Standards & Technical Department are:

Stephen Chan, Technical Director (Ethics & Assurance) & Head of Department Coordination

Simon Riley, Technical Director (Financial Reporting)

Peter Tisman, Technical Director (Business Members & Specialist Practices)

Gary Wong, Project Director (Innovation & Technology)

Further information on the [HKICPA Standards & Technical Department](#) and [previous issues of TechWatch](#) are available at the HKICPA's website.

Hong Kong Institute of Certified Public Accountants
4th Floor, Tower Two, Lippo Centre,
89 Queensway, Hong Kong
Tel: (852)2287 7228 Fax: (852)2865 6776
E-mail: hkicpa@hkicpa.org.hk
Website: <http://www.hkicpa.org.hk>

Members' Handbook Update

1. [Update No. 7](#) was issued in October 2004 enclosing the following:

Financial Reporting Standards – Volume II

- Preface to Hong Kong Financial Reporting Standards
- HKAS 11 *Construction Contracts*
- HKAS 34 *Interim Financial Reporting*
- Interpretation 22 *The Appropriate Policies for Infrastructure Facilities*
- Interpretation 23 *The Appropriate Policies for Hotel Properties*

Auditing & Assurance Standards – Volume III

- HKSQC 1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”
- Hong Kong Framework for Assurance Engagements
- HKSA 220 “Quality Control for Audits of Historical Financial Information”
- HKSA 240 “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements”
- HKSAE 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”

Further details on the above new Statements are set out in the “Financial Reporting” and “Audit & Assurance” sections below.

Technical Update Evening

2. **New TUE Programme**

The forthcoming [TUE sessions](#) in November and December 2004 are:

- An Introduction to the Companies (Amendment) Ordinance 2004 (9 November 2004)
- Don’t underestimate the risk of a privacy breach (23 November 2004)
- New Hong Kong Auditing, Assurance and Related Services Standards (30 November 2004)
- New Quality Control Standards for Auditors (7 December 2004)
- Revised Fraud Consideration and Audit Planning Standards for Auditors (14 December 2004)

Seats are limited. To secure your seats, please register early by completing the [registration form](#) and returning it to the HKICPA.

Institute Of Chartered Accountants In England & Wales (ICAEW) Faculties

3. **Exclusive 3-Month Free Trial**

HKICPA members are entitled to a free 3-month trial offer (October – December 2004) to 2 of the ICAEW's 5 Faculties: Audit & Assurance, Corporate Finance, Finance and Management, Information Technology and Tax.

Click the links below to read the faculty articles on topical issues:

- [New look on auditors' responsibility on fraud](#)
- [Corporate financiers preparing for IFRS](#)
- [What makes an excellent "virtual manager"?](#)
- [Information Security Breaches Survey 2004](#)
- [Disclosure of tax avoidance schemes](#)

[REGISTER NOW](#) to enjoy this free 3-month trial offer and learn more about the quality range of services, technical expertise and publications provided by the ICAEW Faculties.

Financial Reporting

4. HKICPA Issues Revised Preface To Hong Kong Financial Reporting Standards

The HKICPA has issued a revised *Preface to Hong Kong Financial Reporting Standards*. The revised Preface sets out more clearly the authority of interpretations issued by the Council of the HKICPA. In particular, it specifies that entities shall apply interpretations if their financial statements are described as being prepared in accordance with Hong Kong Financial Reporting Standards.

The revised Preface has been issued as part of [Update No. 7](#).

5. Convergence Project Update

The HKICPA seeks to achieve full convergence of Hong Kong's accounting standards with those set by the International Accounting Standards Board (IASB) with effect for accounting periods beginning on or after 1 January 2005.

So far this year the Institute has issued a number of new HKAS, including two HKAS on financial instruments, and five HKFRS, all of which are converged with the equivalent Standards issued by the IASB. Further changes proposed by the IASB to the financial instruments Standards were issued for comment concurrently in Hong Kong and are presently awaiting final consideration by the IASB.

An Exposure Draft proposing the convergence of accounting standards on such topics as leases, investment property, borrowing costs, related parties and joint ventures was issued in June 2004 with comments requested by 16 September 2004. The FASC will be considering the comment letters received on that ED and expects to make recommendations to the Institute's Council before the end of the year. The comment letters will be made available on the HKICPA's website in due course.

Other SSAPs, for example those on income taxes, revenue, employee benefits, government grants and agriculture, not revised or replaced as a result of the above, and which are already substantially converged with the IASB's Standards, will be converted into HKAS before the end of this year without re-exposure. HKAS 11 *Construction Contracts* and HKAS 34 *Interim Financial Reporting*, that are to replace SSAP 23 and SSAP 25, have been issued as part of [Update No. 7](#).

The changeover from SSAPs to HKAS is explained on the [HKICPA's website](#).

A [table of concordance](#) of Standards and Interpretations that contains remarks on the progress of converging HKASs with IASs can be found on the HKICPA's website.

6. FASC Meeting Summary – 8 September 2004

The FASC met on 8 September 2004 and discussed:

- A report from the Urgent Issues and Interpretations Sub-Committee
- Revised Preface to HKFRS
- Convergence Project

FASC [meeting summaries](#) are available on the HKICPA's website.

Audit & Assurance

7. Adoption Of International Standards As Hong Kong Standards On Quality Control, Auditing, Assurance And Related Services

The HKICPA is pursuing a policy of achieving convergence with International Standards on Quality Control, Auditing, Assurance and Related Services issued by the International Auditing and Assurance Standards Board (International Standards). The HKICPA's Auditing and Assurance Standards Committee (AASC) has been delegated by the HKICPA Council with the responsibility to adopt the International Standards as Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services which will replace the current SASs and SAEs. The International Standards to be adopted include:

- Preface to International Standards on Quality Control, Auditing, Assurance and Related Services as Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services;
- International Standards on Auditing (ISAs) as Hong Kong Standards on Auditing (HKSAs);
- International Standards on Review Engagements (ISREs) as Hong Kong Standards on Review Engagements (HKSREs);
- International Standards on Assurance Engagements (ISAEs) as Hong Kong Standards on Assurance Engagements (HKSAEs);
- International Standards on Related Services (ISRSs) as Hong Kong Standards on Related Services (HKSRSs);
- International Standards on Quality Control (ISQCs) as Hong Kong Standards on Quality Control (HKSQCs); and
- International Framework for Assurance Engagements as Hong Kong Framework for Assurance Engagements (Framework).

HKSAs, HKSREs, HKSAEs, HKSRSs, HKSQCs and Framework as well as Hong Kong Standards on Investment Circular Reporting Engagements (HKSIRs) are collectively known as Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services.

The first major output of AASC under the International Standards Convergence Project was the issue in late October 2004 of an ED of Preface to Hong Kong Standards on Quality Control, Auditing,

Assurance and Related Services (Item (i) below) and as part of [Update No. 7](#), 5 final Hong Kong Standards on Quality Control, Auditing and Assurance and Related Services (Items (ii) – (vi) below).

(i) ED “Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services”

The proposed Preface sets out the objectives and due process of the HKICPA Council in respect of setting Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services, and explains the scope, authority and timing of application of Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services as follows:

- HKSAAs are to be applied in the audit of historical financial information
- HKSREs are to be applied in the review of historical financial information
- HKSIRs are to be applied in investment circular reporting engagements
- HKSAEs are to be applied in assurance engagements dealing with subject matters other than historical financial information
- HKSRSs are to be applied to compilation engagements, engagements to apply agreed-upon procedures and other related services engagements
- HKSQCs are to be applied for all services falling under HKSAAs, HKSREs, HKSIRs, HKSAEs and HKSRSs
- Hong Kong Framework for Assurance Engagements is the assurance framework for HKSAAs, HKSREs, HKSIRs and HKSAEs.

The ED has been posted on the [HKICPA’s website](#). Members and interested parties are requested to submit their comments on the ED to the HKICPA by **31 December 2004**.

(ii) HKSQC 1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”

HKSQC 1 establishes a framework and provides guidance on the quality control policies and procedures (collectively, the system of quality control) that should be established by a firm. Such a system of quality control would provide the firm with reasonable assurance that it and its personnel comply with professional standards and applicable legal and regulatory requirements, and that reports issued by the firm are appropriate in the circumstances.

Systems of quality control in compliance with HKSQC 1 are required to be established by firms by 15 June 2005.

(iii) Hong Kong Framework for Assurance Engagements

The Framework defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which HKSAAs, HKSREs, HKSIRs, and HKSAEs apply. It provides a frame of reference for:

- (a) Professional accountants in public practice when performing assurance engagements;
- (b) Others involved with assurance engagements, including the intended users of an assurance report and the responsible party; and
- (c) The HKICPA in its development of HKSAAs, HKSREs, HKSIRs and HKSAEs.

The Framework becomes effective upon publication.

(iv) HKSA 220 “Quality Control for Audits of Historical Financial Information”

HKSA 220 is premised on HKSQC 1 providing guidance concerning the specific quality control procedures to be performed by the practitioner and other members of the assurance team in an audit of historical financial information.

HKSA 220 is effective for audits of financial statements for periods beginning on or after 15 June 2005 to tie in with the effective date of HKSQC 1.

(v) HKSA 240 “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements”

HKSA 240 establishes basic principles and essential procedures and provides guidance on the auditor’s responsibility to consider fraud in an audit of financial statements. It builds on the new Audit Risk Standards SAS 315, “Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement”, SAS 330, “The Auditor’s Procedures in Response to Assessed Risks” and SAS 500, “Audit Evidence”, and requires auditors to focus on areas where there is a risk of material misstatement due to fraud, including management fraud.

HKSA 240 is effective for audits of financial statements for periods beginning on or after 15 December 2004 to tie in with the effective date of the new Audit Risk Standards.

(vi) HKSAE 3000 “Assurance Engagements Other Than Audits Or Reviews of Historical Financial Information”

HKSAE 3000 establishes basic principles and essential procedures for, and provides guidance to, professional accountants in public practice for the performance of assurance engagements other than audits or reviews of historical financial information covered by HKSAAs or HKSREs or investment circular reporting engagements covered by HKSIRs.

HKSAE 3000 is effective for assurance engagements where the assurance report is dated on or after 1 January 2005.

The next phase of the International Standards Convergence Project is for the AASC to issue HKSA 300 “Planning an Audit of Financial Statements”, and to finalize EDs of 20 proposed HKSAAs adopting the equivalent ISAs for consultation in late November/early December 2004.

TUE sessions are scheduled for 7 December 2004 on “New Quality Control Standards for Auditors” and 14 December 2004 on “Revised Fraud Consideration and Audit Planning Standards for Auditors”.

8. AASC Invites Comments On IAASB ED On Audit Documentation

The International Auditing and Assurance Standards Board (IAASB) has issued for public consultation an ED on ISA 230 (Revised) "Audit Documentation".

The proposed revised ISA provides for greater rigour in documentation of key audit matters, which will ultimately drive improved auditor performance. It includes clarification on the form, content, and extent of audit documentation, guidance on changes to audit documentation after the date of the auditor's report, and matters to be considered in connection with confidentiality, safe custody, and retention of audit documentation.

In accordance with the International Standards Convergence Due Process, the AASC has issued an Invitation to Comment to request views of members and interested parties on the IAASB ED in preparing the HKICPA's submission to the IAASB. The Invitation to Comment and the IAASB ED have been posted on the [HKICPA's website](#).

Members and interested parties are requested to submit their comments on the IAASB ED to the HKICPA by **7 January 2005** so that they can be considered and included in the HKICPA's submission to the IAASB.

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

9. AASC Invites Comments On IAASB ED On Proposed Policy Statement On Clarifying Professional Requirements In International Standards

The IAASB believes that the use of clear, concise and consistent language is essential to the consistent application of international standards and will further international convergence to those standards. Accordingly, the IAASB issued for public consultation an ED on Proposed Policy Statement "Clarifying Professional Requirements in International Standards Issued by the IAASB" and a Consultation Paper on "Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements".

The ED reaffirms the responsibility of the professional accountant to consider all aspects of a standard and establishes that the obligations imposed on the professional accountant are to be communicated by the use of specific language. The ED proposes to define two categories of professional requirements – "requirements" and "presumptive requirements" – and the corresponding language to be used in pronouncements. A requirement, to be fulfilled in all cases, would be identified by the word "shall" and a presumptive requirement by the word "should". In addition, the IAASB recommends that the use of the present tense be discontinued when referring to actions by the professional accountant. The related Consultation Paper seeks feedback on whether there is a need to change the way IAASB standards are drafted.

In accordance with the International Standards Convergence Due Process, the AASC has issued an Invitation to Comment to request views of members and interested parties on the IAASB ED and Consultation Paper in preparing the HKICPA's submission to the IAASB. The Invitation to Comment, the IAASB ED and the Consultation Paper have been posted on the [HKICPA's website](#).

Members and interested parties are requested to submit their comments on the IAASB ED and Consultation Paper to the HKICPA by **6 December 2004** so that they can be considered and included in the HKICPA's submission to the IAASB.

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

10. **AASC Meeting Summaries – 24 August And 21 September 2004**

The [Meeting Summaries](#) are available on the HKICPA's website.

Ethics

11. **HKICPA Invites Comments On IFAC ED Of Proposed Revised Code Of Ethics**

The HKICPA issues an [Invitation to Comment](#) on the IFAC ED "Proposed Revised Code of Ethics for Professional Accountants" which seeks to clarify the independence requirements for professional accountants in public practice. Comments to the HKICPA are requested by **19 November 2004**.

The IFAC ED was approved at the [IFAC Ethics Committee's September 2004 meeting](#), which was attended by the HKICPA Ethics Committee Chair, Mr. Mark Fong.

The proposed changes in the independence section seek to conform to the [International Framework for Assurance Engagements](#) and the definitions contained in [International Standard on Quality Control 1](#) "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements". The IFAC ED also proposes an additional requirement to rotate the individual responsible for the engagement quality review in an audit of a listed entity.

The entire IFAC Code has been re-issued in the IFAC ED to provide readers with the context of the independence section.

Upon finalization of the IFAC ED, the HKICPA Ethics Committee intends to adopt it as local requirement so that Hong Kong Code of Ethics maintains conformity with the current IFAC Code of Ethics at all times.

Banking

12. **Challenge Facing Banks And Regulators Under Basel II**

The [Basel Committee on Banking Supervision](#), the international standard-setter in the field of banking supervision, issued in June 2004 "[International Convergence of Capital Measurement and Capital Standards: a Revised Framework](#)", the new capital adequacy framework commonly known as Basel II. Basel II builds on a three pillars (Pillar 1: Minimum Capital Requirements, Pillar 2: Supervisory Review Process, and Pillar 3: Market Discipline) approach to develop a framework that would strengthen the soundness and stability of the international banking system.

In a [presentation](#) made by Mr. Simon Topping, Executive Director (Banking Policy) of the Hong Kong Monetary Authority at the Asia Pacific Convention of the Global Association of Risk Professionals held in September 2004, Mr. Topping explained the Supervisory Review Process under Pillar 2, including the objectives of Pillar 2, the four key principles of supervisory review, the enhanced supervisory framework and risk management.

Listing & Securities

13. Consultation Conclusions Report On The Regulation Of Sponsors And Independent Financial Advisers

The Stock Exchange of Hong Kong Limited (SEHK) and the Securities and Futures Commission have jointly published a [Consultation Conclusions Report on the Regulation of Sponsors and Independent Financial Advisers](#) (IFAs) (the Conclusions Report). SEHK has also published amendments to the Listing Rules ([Main Board](#) and [GEM](#)) consistent with the policy conclusions set out in the Conclusions Report.

The policy conclusions and rule amendments address, amongst other things:

- when an issuer must appoint a sponsor or post-listing adviser (to be known as compliance advisers);
- the role and responsibilities of issuers in assisting sponsors and compliance advisers;
- undertakings and declarations required to be given by sponsor and IFA firms to SEHK;
- independence requirements for sponsors, compliance advisers and IFAs; and
- the roles and responsibilities of sponsors, compliance advisers and IFAs including the due diligence SEHK expects they should typically perform.

The rule amendments will commence on 1 January 2005. A summary of the rule amendments and the transitional arrangements for their implementation is set out in the [HKEx News Release](#).

The HKICPA Expert Panel of Listing's [submission on the Consultation Paper](#) and [submission on the Draft Rules Amendments](#) are available on the HKICPA's website.

Corporate Restructuring & Insolvency

14. HKICPA Issues Exposure Draft Of Insolvency Guidance Notes

The HKICPA has issued a first [exposure draft](#) of guidance notes on insolvency practice in Hong Kong (IGNs), a copy of which members should already have received by email circulation. The aim of the IGNs is to reflect best practice and to ensure that high standards of professionalism and competence are maintained by members when carrying out insolvency work in Hong Kong, including, where appropriate, members' voluntary windings up, having regard to the provisions of the Companies Ordinance (Cap. 32), the Bankruptcy Ordinance (Cap. 6) and the secondary legislation (primarily the Companies (Winding-up) Rules and the Bankruptcy Rules).

The initial set of draft IGNs, which have been adapted from the UK Statements of Insolvency Practice issued by the UK Recognised Professional Bodies, cover some of the more important areas of insolvency practice, namely:

- (1) Introduction, which explains the scope and authority of the IGNs.
- (2) Liquidator's investigation into the affairs of an insolvent company.

- (3) Preparation of insolvency office-holders' receipts and payments accounts.
- (4) Disqualification of directors – statutory reports.

It is intended that other IGNS will be produced in due course in a continuing process of promoting and enhancing best practice in Hong Kong. Given the importance of this initiative, a consultation is being conducted for a period of two months, ending on **30 November 2004**.

15. **Bankruptcy (Amendment) Bill To Be Re-Introduced Into LegCo**

Proposed amendments to the Bankruptcy Ordinance (Cap. 6) have been re-introduced into the Legislative Council ("LegCo") in the form of the Bankruptcy (Amendment) Bill 2004. The bill was gazetted on 8 October 2004. To facilitate early implementation of the proposed changes, draft subsidiary legislation, which is consequential to the bill, has been prepared in advance.

As reported in [TechWatch Issue No. 19](#), the bill, formerly the Bankruptcy (Amendment) Bill 2003, was first introduced into the LegCo on 10 December 2003 to facilitate the outsourcing by the Official Receiver's Office of bankruptcy cases to private sector insolvency practitioners. However, the bill was not enacted before the expiry of the previous LegCo term of office as no Bills Committee slot was allocated for it.

The HKICPA's Insolvency Practitioners Committee will review the bill and subsidiary legislation with a view to submitting comments, as appropriate. Members will be informed of any significant developments on the matter.

Taxation

16. **2005 Annual Meeting With The Commissioner Of Inland Revenue – Agenda Items Invited**

Representatives of the HKICPA will be holding the next regular annual meeting with the Commissioner of Inland Revenue (CIR) in January 2005 to discuss matters of common concern in relation to tax practice and procedure.

The annual meeting focuses on matters of broad concern and it is generally not a suitable forum for taking up specific cases with the Inland Revenue Department, unless these reflect a more general problem or trend. However, in this regard, in addition to inviting members to submit suggestions of agenda items, the HKICPA is also interested to canvass views on whether practitioners have observed any change in the trend regarding the number and/or nature of unresolved cases, as explained in a [circular](#) to member practices.

Any suggestions for agenda items, together with an explanation of the issue, and/or observations regarding the trend in the number and/or nature of unresolved tax cases should be forwarded to [John Tang](#), Assistant Director (Business Members & Specialist Practices) by **22 November 2004**.

[Minutes of the 2004 Annual Meeting with the CIR](#) are available at the HKICPA's website.

17. **HKICPA Submits Comments On The Estate Duty Review Consultation Document**

In the 2004-05 Budget Speech, the Financial Secretary proposed that a review of the estate duty regime should be conducted to consider whether, and how, it should be adjusted to attract more foreign capital into Hong Kong. Subsequently, as reported in [TechWatch Issue No. 27](#), the

Government issued a [consultation document](#) to highlight the important features of Hong Kong's estate duty system and invite comments to assist the Government in formulating proposals on estate duty for the 2005/06 Budget. In particular, views were requested on a number of questions posed in the consultation document, which were grouped under the main headings:

- (i) whether the current estate duty regime should be retained;
- (ii) whether the estate duty regime should be adjusted through provision of exemption by reference to "domicile" or "residency";
- (iii) whether the estate duty regime should be adjusted through provision of exemptions by reference to asset type;
- (iv) whether estate duty should be abolished; and
- (v) whether other measures or changes, together with or instead of adjustments to estate duty, are needed to develop Hong Kong's role as the premier asset management centre for Asia.

The HKICPA's Taxation Committee noted that there are arguments both for and against the proposal for abolition. However, having weighed up the arguments, the abolition of estate duty is the preferred option.

In a [submission](#) on the consultation document, the HKICPA expressed the view that, taking into consideration all the relevant factors, the best option would be to abolish estate duty altogether in one go. While a phased abolition could add complexity to the tax regime during the transitional period, the HKICPA pointed out that, were a phased abolition to be implemented, providing exemptions from estate duty based on asset types (in particular, bank accounts and listed securities), as a first phase, should benefit Hong Kong's role as a financial centre. The submission also stated that, in the event of a phased withdrawal, a clear timetable should be given for completion of the exercise.

Legislation & Government Initiatives

18. Companies Registry Issues Annual Report 2003-04 And Environmental Report 2003

Members may wish to note that the "Companies Registry Annual Report 2003-04" and "Companies Registry Environmental Report 2003" and the messages on the issue of these new reports can now be accessed on the [Companies Registry's website](#) (under Sections: "What's New", "Press Release and Message from the Registry", "Companies Registry Annual Report" and "Notices").

19. Prospectus-Related Provisions Of Companies (Amendment) Ordinance 2004 To Commence On 3 December 2004

As reported in [TechWatch Issue No. 26](#), the Companies (Amendment) Ordinance 2004, which amends provisions in the Companies Ordinance (Cap. 32) relating to prospectuses, the regulation of oversea companies and shareholder remedies, was passed by LegCo and gazetted in July 2004.

The Secretary for Financial Services and the Treasury has now appointed 3 December 2004 as the commencement date for the prospectus-related provisions of the Companies (Amendment) Ordinance 2004.

The provisions on overseas companies and shareholders' remedies, on the other hand, will be brought into operation in 2005 after the necessary court rules, a fee order and enhancement to Companies Registry's computer system have been made.

Further information is contained in a Government press release issued on 8 October 2004, a copy of which can be accessed at the [Companies Registry's website](#) (under "Commencement of prospectus-related provisions in the Companies (Amendment) Ordinance 2004").

20. **Companies (Amendment) Bill 2004 Re-Introduces Proposed Amendments To The Definition Of "Subsidiary"**

The [Companies \(Amendment\) Bill 2004](#), which was gazetted on 8 October 2004, re-introduces proposed amendments to the definition of the term "subsidiary" for the purposes of group accounts under the Companies Ordinance.

As reported in [TechWatch Issue Nos. 16 and 18](#), the proposal, which was developed in consultation with the HKICPA, seeks to align the definition more closely with accounting standards. It was originally part of the Companies (Amendment) Bill 2003 but, as explained in the Government press release announcing the publication of the Bill, a copy of which can be accessed at the [Companies Registry's website](#) (under "Companies (Amendment) Bill 2004"), the proposal was removed from the Companies (Amendment) Bill 2003, as the Bills Committee did not have enough time to scrutinise it fully before the end of the previous LegCo's term of office.

Innovation & Technology

21. **Controlling Computers in Business**

Responding to the needs of members operating in the small and medium-sized practice whose dealings are principally with small and medium-sized enterprises (SMEs), the IFAC Small/Medium Practices (SMP) Task Force has arranged to issue a series of publication designed to provide practical advice on computing controls. The series, whilst aimed mainly at SMEs, will also be of use to SMPs, both for use in their own offices and also for their clients who will mainly be SMEs. The reason why the Task Force considers computer controls to be of significance to SMPs and SMEs is given in the Foreword.

There are 5 volumes under this series:

- Volume 1 – Backup, Archive and Restore
- Volume 2 – Physical Security
- Volume 3 – Logical Access Security
- Volume 4 – Selection, Implementation and Testing of Packaged Software
- Volume 5 – Computer Disaster Recovery Planning

The publication can be downloaded free of charge from the [IFAC's website](#) under Bookstore and SMPs.

Comment Due Dates

Date	Subject
6 November 2004	Exposure Draft of Proposed Practice Note 830 “Reporting responsibilities of auditors under the Banking Ordinance”, which has been posted on the HKICPA’s website .
19 November 2004	Invitation to Comment on IFAC Exposure Draft on Proposed Revised Code of Ethics for Professional Accountants, which has been posted on the HKICPA’s website .
30 November 2004	Exposure Draft of Insolvency Guidance Notes, which has been posted on the HKICPA’s website .
6 December 2004	Invitation to Comment on IAASB ED on Proposed Policy Statement “Clarifying Professional Requirements in International Standards Issued by the IAASB” and IAASB Consultation Paper on “Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements”, which has been posted on the HKICPA’s website .
31 December 2004	Exposure Draft of Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services, which has been posted on the HKICPA’s website .
7 January 2005	Invitation to Comment on IAASB ED on ISA 230 (Revised) “Audit Documentation”, which has been posted on the HKICPA’s website .
Please send comments to commentletters@hkipa.org.hk	