



TechWatch

News at a glance

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TechWatch updates you on technical developments in financial reporting, auditing, regulation and business. The Institute welcomes your comment, emailed to commentletters@hki CPA.org.hk. Click [here](#) for past issues.

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Spotlight

1. Handbook Update 35

Update 35 encloses revised *Preface to Hong Kong Financial Reporting Standards*.

Following the issuance of the Information Paper *Setting Hong Kong Financial Reporting Standards* in June 2006, the Institute has updated the *Preface to Hong Kong Financial Reporting Standards* to take account of the completion of Phase I of the convergence programme to converge Hong Kong Financial Reporting Standards with International Financial Reporting Standards.

The revised Preface places stronger emphasis on the alignment of the Institute's standard-setting due process with that of the International Accounting Standards Board.

2. Practice Review Committee Issues its 2005 Operations Report

The Institute's Practice Review Committee ("PRC") is responsible for reviewing, under the Institute's practice review programme, whether CPA practices observe, maintain or apply professional standards in their audit and assurance work. The PRC has recently issued its Operations Report 2005, titled "**Enhancing Quality Through Practice Review**".

Two years ago, the Institute decided to design a new practice review programme aiming to assess whether a practice unit has an adequate system of quality control to ensure work quality is maintained in every assurance and related services engagement. The work of the PRC in 2005 focused on the development of the new practice review programme ready for its launch in 2006. In 2005, the PRC still continued in carrying out reviews of follow-up cases under its original practice review programme.

The PRC Operations Report 2005 summarises the main features of the new practice review programme and provides useful education points to practising members arising from the practice review programme.

3. Members' Forum with the Financial Secretary on Options for Broadening Hong Kong's Tax Base

The Financial Secretary has recently announced that, while the public shares the view that there is a need to broaden the tax base, at this time there is insufficient support for GST. Therefore, for the remainder of the consultation period, other options will be explored. This forum will give you the chance to put your views direct to the Financial Secretary, The Honourable Mr. Henry Tang, on the best option for broadening the tax base or, indeed, whether there is a need to reform the tax system at all.

The forum will be chaired by Dr. Stella Cho, deputy chairman of the Institute's Taxation Committee. Other panellists are Mr. Paul Chan, the Institute's president and Mr. David Southwood, deputy chairman of the Institute's Taxation Committee.

The forum will be held on 11 December 2006, at 6:45 p.m. at the Institute's training center on 27/F of Wu Chung House. It is free-of-charge and seats will be allocated to members on a first-come-first-served basis.

Click [here](#) for further details and register early to avoid disappointment.

Financial Reporting

4. Institute Comments on IASB Discussion Paper on an Improved Conceptual Framework for Financial Reporting

The International Accounting Standards Board ("IASB") Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information* contains the first results from the IASB joint project with the US Financial Accounting Standards Board ("FASB") on an improved conceptual framework for financial reporting. It sets out their preliminary views on the first two chapters of an enhanced conceptual framework.

The Institute's **submission** to the IASB supports the joint project and suggests further consideration be given to a number of areas, including the authoritative status of the framework, its relevance to entities outside the private sector and the needs of the users of financial reports, identifying the primary users of financial reports and considering certain fundamental concepts such as stewardship, faithful representation and reliability, etc.

5. Institute Comments on IFRIC Draft Interpretation D20 *Customer Loyalty Programmes*

IFRIC Draft Interpretation D20 *Customer Loyalty Programmes* addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. It addresses sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services.

The Institute's **submission** to the IASB comments that the accounting treatment proposed by D20 is appropriate for customer loyalty programmes which are in substance part of a multiple sales transaction, but considers it inappropriate for those programmes that are of the nature of marketing activities.

6. FRSC Meeting Summary – 11 October 2006

This **FRSC meeting summary** covers:

- IASB ED of Proposed Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements - Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*
- IFRIC Draft Interpretation D19 – IAS 19 *The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*
- IFRIC Draft Interpretation D20 *Customer Loyalty Programmes*

- IASB Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*
- Treatment of a financial guarantee granted by the parent on a subsidiary's bank borrowings

Audit & Assurance

7. Invitation to Comment on IAASB EDs of Proposed ISA 260, ISA 320 and ISA 450

The Institute has issued an **Invitation to Comment** on the International Auditing and Assurance Standards Board ("IAASB") EDs of ISA 260 (Revised and Redrafted) *Communication with Those Charged with Governance*, ISA 320 (Revised and Redrafted) *Materiality in Planning and Performing an Audit* and ISA 450 (Redrafted) *Evaluation of Misstatements Identified during the Audit*, with comments requested by **26 January 2007**.

The Explanatory Memorandum to the EDs provides background information and explanation of the proposed ISAs.

The IAASB is seeking comments **only** on changes resulting from applying the clarity drafting conventions and their effect on the content of the ISAs. Respondents are asked to respond, in particular, to the following questions:

1. Is the objective to be achieved by the auditor, stated in each of the proposed redrafted ISAs, appropriate?
2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgement by auditors?

8. AASC Meeting Summary – 26 October 2006

This [AASC meeting summary](#) covers:

- Adoption of HKSRE 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity*
- Revised Working Draft of proposed Example Report for Incorporated Management Committee Schools under the Education (Amendment) Ordinance 2004
- ICAEW Technical Release “Identifying and managing certain risks arising from the inclusion of reports from auditors and accountants in prospectuses (and certain other investment circulars)”
- Annual Auditing Update Conference held on 21 October 2006 and seminar for SFC/SEHK on Draft Discussion Paper “Requests For Special Purpose Reports” held on 10 October 2006
- PN 900 *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*

Taxation

9. Agenda Items Invited for Annual Meeting with Commission of Inland Revenue

As mentioned in an [e-circular](#) dated 8 November, the next regular annual meeting between the Institute and the Commissioner of Inland Revenue (“CIR”) will be held in January 2007 to discuss matters of common concern in relation to tax practice and procedure.

The annual meeting focuses on matters of broad concern. While it is generally not a suitable forum for taking up specific cases with the Inland Revenue Department, cases may be quoted as specific examples, if these clearly reflect a more general problem or trend. Any suggestions for agenda items, together with an explanation of the issue, should be forwarded to [Mary Lam](#), Assistant Director, Specialist Practices at the Institute by **9 December 2006**.

Government Legislation & Other Initiatives

10. Public Consultation on the Way Forward for Hong Kong’s Competition Policy

The government has released a discussion document “[Promoting Competition – Maintaining Our Economic Drive](#)” to seek public views on the pros and cons of various options for the future regulation of anti-competitive business practices in Hong Kong. The consultation period ends on **5 February 2007**.

The Institute’s Expert Panel on Legal Matters is considering the discussion document. Members will be kept informed of further developments on the matter.

Corporate Governance

11. Results of the 2006 Best Corporate Governance Disclosure Awards Announced

The Institute’s 2006 Best Corporate Governance Disclosure Awards (“the Awards”) was successfully concluded with the presentation ceremony for the Awards held at a luncheon on 28 November 2006. The guest of honour, the Secretary for Financial Services and the Treasury, Mr. Frederick Ma, presented the awards to the winners.

The results of the Awards were announced at a [press conference](#) held prior to the luncheon. At the press conference, Chairmen, finance directors, chief financial officers or other senior representatives of the award winners briefly addressed the audience on the subject of corporate governance in their companies.

The winners of the 2006 Awards are:

Hang Seng Index Category

Diamond – CLP Holdings Ltd.

Platinum – HSBC Holdings plc

Gold – Li & Fung Ltd.

Special Mention – BOC Hong Kong (Holdings) Ltd.

Non-Hang Seng Index Category

Diamond – Standard Chartered PLC
Platinum – Hong Kong Exchanges and Clearing Ltd.
Gold – Hysan Development Co. Ltd.

H-share Companies Category

Diamond – Jiangsu Expressway Co. Ltd.
Platinum – Shenzhen Expressway Co. Ltd.
Gold – Datang International Power Generation Co. Ltd.

Public Sector/Not-For-Profit Organisations

Diamond – Airport Authority Hong Kong
Platinum – Securities and Futures Commission

A **Judges' Report** for the 2006 Awards has been produced. In addition to containing the results and further background details on the Awards programme, it provides the judges' commentaries on the winning annual reports, and the observations of the judges and reviewers on the general standard of corporate governance disclosures and practices in Hong Kong, as reflected in the annual reports that were considered in the competition.

Compliance

12. Complaints Oversight Committee Issues its First Operations Report

The Complaints Oversight Committee ("COC") has recently issued its first **Operations Report**.

The COC, established in 2005, is an outgrowth of the Institute's drive for reform designed to improve the transparency, independence and effectiveness of oversight of the accountancy profession. It replaces the Complaints Panel and Complaints Committee system, aims to enhance consistency and efficiency in the handling of complaints against members of the Institute.

The COC Operations Report 2005 sets out the changes to the complaints handling system and the processes undertaken in relation to the handling of complaints. The COC's work completed in 2005 is outlined and its composition in 2006 explained. The COC

believes that the report will enhance the mutual understanding and the transparency of its work.

International Meetings

13. International Accounting Standards Board

The IASB met in London on 16 and 17 November 2006 and discussed the following topics:

- Financial Instruments
- Post employment benefits
- Service concession arrangements
- Conceptual framework
- Annual improvements process
- Update on IFRIC activities
- Short-term convergence: borrowing costs Business
- Short-term convergence: joint ventures

Click [here](#) to see the November 2006 IASB Update. The IASB next meets on 11 – 15 December 2006.

14. International Financial Reporting Interpretations Committee

The IFRIC met in London on 1–3 November 2006 and discussed the following topics:

- Comments received on the draft IFRIC Due Process Handbook
- IAS 18 *Revenue* – Real estate sales
- IAS 18 *Revenue* – Revenue recognition in respect of initial fees
- IAS 19 *Employee Benefits* – Update on employee benefit issues
- IAS 19 *Employee Benefits* – 'Special wages tax'
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* – Hedging a net investment

- IAS 38 *Intangible Assets* – The treatment of catalogues and other advertising costs
- IAS 39 *Financial Instruments: Recognition and Measurement* – Indexation on own EBITDA or own revenue
- IAS 41 *Agriculture* – Recognition and measurement of biological assets and agricultural produce in accordance with IAS 41
- Demergers and other in specie distributions
- D9: *Employee Benefits with a Promised Return on Contributions or Notional Contributions*
- IFRIC agenda decisions
- Tentative agenda decisions

Click [here](#) to view the November 2006 IFRIC Update. The IFRIC next meets on 11 and 12 January 2007.

15. International Auditing and Assurance Standards Board

The IAASB will meet in London from 4 to 8 December 2006 and the following topics will be discussed:

- Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures (Approval of Clarity Combined Exposure Draft)
- Reading Other Information in Documents Containing Audited Financial Statements (Approval of Clarity Exposure Draft)
- Written Representations (Approval of Exposure Draft)
- Audit Documentation (Approval of Clarity Exposure Draft)
- Subsequent Events (Approval of Clarity Exposure Draft)
- The Auditor's Consideration of the Internal Audit Function (Approval of Clarity Exposure Draft)

- Special Considerations When Reporting on Summary Financial Statements (Approval of Close Off Document)
- Overall Objective of the Independent Auditor, and Fundamental Concepts Relevant to an Audit of Financial Statements (Second Read of Proposed Revised ISA)
- Related Parties (Second Read of Proposed Revised ISA)
- Quality Control for Audits of Historical Financial Information (First Read of Clarity Redraft)

Click [here](#) for further details and for the audio recording of the IAASB meeting held in New York on 25 – 27 October 2006.

16. International Ethics Standards Board for Accountants

The IESBA will next meet in London on 18 and 19 December 2006 to consider drafts of proposed revised Section 290 *Independence – Audit and Review Engagements* and new Section 291 *Independence – Other Assurance Engagements* of the Code of Ethics for Professional Accountants.

Click [here](#) for further details.

Comment Due Dates

26 January 2007: IAASB Exposure Drafts of ISA 260 (Revised and Redrafted) *Communication with Those Charged with Governance*, ISA 320 (Revised and Redrafted) *Materiality in Planning and Performing an Audit* and ISA 450 (Redrafted) *Evaluation of Misstatements Identified during the Audit*.