



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 Updates 38, 39 and 40

Update 38 encloses HKFRS 8 *Operating Segments* and HK(IFRIC) Interpretation 12 *Service Concession Arrangements*. Further details are set out in the “Financial Reporting” section below.

Update 39 encloses the new HKSRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. Further details are set out in the “Audit & Assurance” section below.

Update 40 encloses the new Guidelines 1.101A *Guidelines for the Chairman and the Committee on Administering the Disciplinary Committee Proceedings Rules*, which came into effect on 1 March 2007.

The Guidelines are to provide guidance on how the new Disciplinary Committee Proceedings Rules should be applied. They are intended for guidance only and are not exhaustive or binding upon the Chairman or the Disciplinary Committee. It is expected, however, that the Chairman and the Disciplinary Committee will follow the Guidelines save in exceptional circumstances. Click [here](#) for the background notes explaining the development of the Guidelines.

2. Technical Update Evening (TUE) Programme

The April 2007 **TUE programme** features the following topics:

- 704 (17 April) Operating Segments – HKFRS 8
- 705 (24 April) Review of Interim Financial Information Performed by the Independent Auditor of the Entity – HKSRE 2410

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

3. Public Consultation on Accounting and Auditing Provisions of the Companies Ordinance

The government issued a **consultation paper** on proposals to improve the accounting and auditing provisions of the Companies Ordinance on 29 March 2007, with comments requested by **29 June 2007**. The proposals aim to:

- save compliance and business costs incurred by companies;
- improve the disclosure and transparency of company information; and
- enhance compliance with the relevant accounting and auditing requirements.

Specific proposals include:

- providing relief from the obligation on a holding company to prepare its own accounts if the company has included its own balance sheet in the notes to the group accounts;
- extending requirements for disclosures in the directors’ report and introducing a directors’ remuneration report;
- simplifying the provisions regarding summary financial reports;
- enhancing auditors’ rights; and
- increasing the number of companies eligible to apply the simplified reporting under section 141D.

Click [here](#) for the Consultation Paper Highlights.

The consultation is the first of a series of topical consultations in the course of the Companies Ordinance rewrite exercise, which aims to modernise the company law and enhance Hong Kong’s competitiveness and attractiveness as an international business and financial centre.

If you would like your comments reflected in the Institute’s comments, please send them by **30 May 2007** to commentletters@hki CPA.org.hk.

Financial Reporting

4. Institute Issues New Financial Reporting Standard and Interpretation (Handbook Update 38)

(i) HKFRS 8 *Operating Segments*

HKFRS 8 Operating Segments is effective for annual periods beginning on or after 1 January 2009, the same effective date as IFRS 8 *Operating Segments*. Earlier application is permitted.

IFRS 8 uses the management approach to segment reporting. It arises from the International Accounting Standards Board (IASB)'s comparison of IAS 14 *Segment Reporting* with the US standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*. IFRS 8 forms part of the IASB's work in a joint short-term project with the US Financial Accounting Standards Board to reduce differences between IFRSs and US GAAP.

(ii) HK(IFRIC) Interpretation 12 *Service Concession Arrangements*

HK(IFRIC) Interpretation 12 Service Concession Arrangements is effective for annual periods beginning on or after 1 January 2008, the same effective date as IFRIC Interpretation 12. Earlier application is permitted.

IFRIC Interpretation 12 provides guidance on the accounting by private sector operators in respect of public-to-private service concession arrangements.

5. Invitation to Comment on IASB ED of Proposed Amendments to IAS 24

The Institute has issued an **Invitation to Comment** on the IASB Exposure Draft ("ED") of Proposed Amendments to IAS 24 *Related Party Disclosures – State-controlled Entities and the Definition of a Related Party*, with comments requested by **4 May 2007**.

The ED proposes to:

- (a) eliminate the disclosure requirements in IAS 24 for some entities that are related only because they are either state-controlled or significantly influenced by the state. The proposed exemption from the disclosure requirements is limited to those circumstances in which there are no indications that the entity influenced, or was influenced by, the related party. A statement to that effect is required to be made in the financial statements.
- (b) amend, clarify and in certain cases extend, and restructure the definition of a related party to remove inconsistencies and improve readability.

6. Comparison between HKFRSs and IFRSs

A **comparison table** between HKFRSs and IFRSs (updated up to 1 January 2007) is on the Institute's website.

7. FRSC Meeting Summary – 14 February 2007

This **FRSC meeting summary** covers:

- Proposed meeting dates for year 2007
- Terms of Reference and Work Programme for 2007
- Revised draft Policy on Providing Interpretations or Rulings on Financial Reporting Issues
- Extension of comment deadline on IASB Discussion Paper *Fair Value Measurements*
- Comparison between HKFRSs and IFRSs
- Report on the IASB/FASB round-table discussions on measurement and the HKFRS/IFRS Forum
- National Standard Setters Meeting and Meeting with IASB Conceptual Framework project team members

- IASB ED of Proposed Amendments to IFRS 1 *First-time Adoption of IFRSs – Cost of an Investment in a Subsidiary*
- Compliance with HKFRSs vs. compliance with IFRSs.

Audit & Assurance

8. Institute Issues New HKSRE 2410 (Handbook Update 39)

New **HKSRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity** is effective for reviews of interim financial information for periods beginning on or after 15 December 2006. Early adoption is permitted. It is to replace SAS 700 *Engagements to review interim financial reports*, which is applicable for reviews of interim financial information for periods beginning before 15 December 2006.

HKSRE 2410 establishes standards and provides guidance on the auditor's professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client. It also provides some local guidance on the requirements of the Main Board and the GEM Listing Rules in relation to a report on interim financial information.

The scope of HKSRE 2410 is limited to a review of interim financial information performed by an independent auditor of the financial statements of the entity. A practitioner who is engaged to perform a review of interim financial information for periods beginning on or after 15 December 2006, and who is not the auditor of the entity, performs the review in accordance with **HKSRE 2400 Engagements to Review Financial Statements**, and not HKSRE 2410.

9. Invitation to Comment on IAASB EDs of ISA 550 and ISA 570

The Institute has issued an **Invitation to Comment** on two International Auditing and Assurance Standards Board ("IAASB") exposure drafts ("EDs"), which is set out in two parts:

Part A – ISA 550 (Revised and Redrafted) *Related Parties*, with comments requested by **15 June 2007**.

Part B – ISA 570 (Redrafted) *Going Concern*, with comments requested by **18 May 2007**.

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

Proposed ISA 550 is revised and redrafted to:

- enhance the auditor's consideration of related parties and related party transactions in an audit of financial statements;
- establish an approach that requires the auditor to assess the risks of misstatement and direct audit work accordingly;
- make the auditor's responsibilities clearer;
- emphasise the need for the auditor to be aware of related parties and extent to which they affect the financial statements; and
- include a new definition of a "related party" to serve as a minimum level for the purposes of the audit. It should be noted that if a specific framework provides additional criteria or specifications in defining "related party", such as HKFRSs, the definition in that framework should be used in addition to the definition in the proposed ISA 550. The existing definition in HKFRSs is presently under review, and commentators on proposed ISA 550 may wish to refer to that Invitation to Comment (see Item 5 of this TechWatch).

Proposed ISA 570 is redrafted to contain clearer requirements and easy to understand application guidance. There are no changes proposed to the requirements in the standard.

10. Institute Comments on IAASB EDs

The Institute submitted comments to the IAASB on the EDs of proposed 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* on 5 March 2007. The [submission](#) indicates that the Institute is supportive of the revision and redrafting and that generally, the objective to be achieved by the auditor, as stated in each of the proposed redrafted ISAs, is appropriate. Furthermore, the Institute notes that the criteria identified by the IAASB for determining a requirement has been applied appropriately and consistently such that the resulting requirements will promote consistency and support the use of professional judgement by auditors.

The Institute's submission highlights some concerns on certain requirements which it considers should be transferred to the section on application and other explanatory guidance.

The submission also reiterates a point it made in a submission dated 28 March 2006 on the IAASB ED on Improving the Clarity of IAASB Standards. The Institute is of the view that the IAASB should approach the development of the objectives of each ISA together rather than on a piecemeal ISA-by-ISA basis as it works through the clarity project. Accordingly, it strongly recommends that the IAASB commences to look at the objectives in all ISAs and links them to the objective in ISA 200 *Objective and General Principles Governing an Audit of Financial Statements*.

11. AASC Meeting Summary – 27 February 2007

This [AASC meeting summary](#) covers:

- Meeting schedule for 2007
- Terms of Reference and Proposed Work Plan for 2007
- Proposed HKSRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*
- Draft submission on IAASB EDs of proposed ISA 260 (Revised and Redrafted) and ISA 450 (Redrafted)
- Update on Reporting on Audit of Schools
- Draft Policy on Providing Interpretations or Rulings on Auditing and Assurance Issues

Ethics

12. Ethics Committee Meeting Summary – 7 December 2006

This [Ethics Committee meeting summary](#) covers the International Ethics Standards Board for Accountants Meeting held in London on 18 and 19 December 2006.

Taxation

13. Institute's Submission on Broadening Hong Kong's Tax Base

The government's consultation on *Broadening the Tax Base – What's the Best Option for Hong Kong?* ended on 31 March 2007. Updates on the consultation have been included in [TechWatch Nos. 46, 48 and 51](#), since the launch of the consultation in July 2006 until the announcement by the Financial Secretary in December 2006 that, for the remainder of the consultation period, the government would not be advocating a goods and services tax ("GST") as the only or the main option to broaden the tax base.

Following the government's announcement in December 2006, the Institute's Working Group on Tax Reform worked on preparing a submission in the light of the change of emphasis in the consultation. At a [press briefing](#) held on 29 March 2007, the chair of the Taxation Committee, Yvonne Law, and the co-chair of the Working Group, Stella Cho, announced the Institute's recommendations that, besides a GST, the government should also look at several other options, either as stand-alone options, or as part of, or a mix of, new and existing taxes.

In its **submission**, the Institute considers the technical merits of various options. In the first part, the submission examines the pros and cons for Hong Kong of a diverse range of possible tax measures. As a result of this review, the Institute believes that, prima facie, other new taxes, such as a retail sales tax, payroll and social security taxes, green taxes, utilities surcharge, land and sea departure tax, and other options, would not be more efficient than a GST in producing a substantial, steady stream of revenue at a low rate of tax, while achieving other important objectives, e.g., not adversely affecting Hong Kong's international competitiveness.

In the second part of the submission, the Institute comments on the features of the GST framework proposed in the consultation document. Although the Institute is broadly supportive of the GST framework put forward by the government, so far as it goes, the submission points out that many important issues remain unanswered, thus giving rise to uncertainty. The submission also makes reference to views expressed by members in the survey conducted by the Institute in November 2006.

Corporate Finance

14. SFC Announces a Revised Approach to Giving Statutory Backing to Major Listing Requirements

In early 2005, the Securities and Futures Commission ("SFC") published a **consultation paper** to seek comments on proposed amendments to the Securities and Futures (Stock Market Listing) Rules, as part of the process of codifying certain important requirements of the existing Stock Exchange Listing Rules as subsidiary legislation under the Securities and Futures Ordinance ("SFO"). The Institute made a **submission** on the consultation document on 14 May 2005 (reported in **TechWatch No. 33**).

Although the government and the SFC received general market support for the proposals, there were comments that the initially proposed

statutory rules were unduly detailed and a breach of the minor detailed requirements might attract statutory sanctions. As a result of extensive discussions with a focus group of stakeholders, a revised approach is now proposed, which is described in the **Consultation Conclusions** paper released by the SFC on 28 February 2007 and is aimed at ensuring that the regulatory regime is flexible, effective and clear.

The main features under the revised approach are:

- A set of general principles (and safe harbours that disapply them in specified circumstances) will be enshrined in the SFO. These are fundamental obligations to be complied with by listed issuers. Non-compliance with the general principles in the SFO will be regarded as market misconduct.
- The general principles are supplemented by ancillary provisions (including definitions and factors in determining compliance) in a new schedule to the SFO. Non-compliance with the provisions of the schedule may constitute a contravention of the general principles in the SFO.
- More detailed and technical provisions to assist compliance will be set out in a non-statutory Listing Code to be issued by the SFC. Non-compliance with the detailed and technical provisions in the Listing Code would not of itself render a person liable to enforcement action, but may be of evidential value in any enforcement proceedings commenced in respect of a breach of the general principles in the SFO.

The listing requirements covered are essentially the three core areas identified in the consultation paper previously, namely (i) periodic financial reporting, (ii) disclosure of price sensitive information and (iii) notifiable transactions and connected transactions which require shareholders' approval. These areas, to be covered by the revised regime, will be deleted from the Stock Exchange Listing Rules to avoid duplication.

It is intended that the SFC will administer the new regime, and be responsible for the policy review of the new SFO provisions and the non-statutory Listing Code and for investigations and enforcement action in respect of breaches of the general principles.

15. HKEx Announces Launch of Electronic Disclosure and Abolition of Mandatory Paid Announcements

On 23 March 2007, Hong Kong Exchanges and Clearing Limited (“HKEx”) **announced** that it will abolish the Main Board requirement for paid announcements on Monday 25 June 2007 when it launches the new regime for electronic dissemination of regulatory information (the “Electronic Disclosure Project”).

HKEx first proposed the Electronic Disclosure Project in April 2000. On 7 July 2006, it published the exposure conclusion on **Abolition of Requirement for Main Board Issuers to Publish Paid Announcements in Newspapers and Related Matters**, which set out details of the proposed new regime in its final form. HKEx is implementing the Electronic Disclosure Project according to the schedule set out in the exposure conclusion.

In order to keep issuers and other market users abreast of the project, HKEx published a **Communication Paper** on 23 March 2007 that sets out the changes faced by various stakeholders following the implementation of the Electronic Disclosure Project. There is also a section on the **HKEx website** provides a range of materials including Frequently Asked Questions on the operational aspects of e-Submission System (“ESS”), the ESS User Manual and other related documents.

International Meetings

16. International Accounting Standards Board

The IASB met in London on 20 – 22 March 2007 and discussed the following topics:

- Financial statement presentation

- Business Combinations II
- Annual improvement process
- Conceptual framework
- Leases
- Financial instruments
- Post-employment benefits
- IAS 37 redeliberations
- Update on IFRIC activities
- IAS 33 *Earnings per share*
- Technical plan

Click [here](#) to view the March 2007 IASB Update. The IASB next meets on 16 – 20 April 2007.

17. International Financial Reporting Interpretations Committee

The IFRIC met in London on 8 - 9 March 2007 and discussed the following topics:

- D19 *IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*
- D20 *Customer Loyalty Programmes*
- IAS 18 *Revenue*—Sales of real estate
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* – The hedge of a net investment in a foreign operation
- IAS 38 *Intangible Assets* – Advertising and promotion
- IFRS 5 *Non-current Assets held for Sale and Discontinued Operations* – Plan to sell the controlling interest in a subsidiary
- IFRIC Agenda Decisions
- Tentative Agenda Decisions.

Click [here](#) to view the March 2007 IFRIC Update. The IFRIC next meets on 3 and 4 May 2007.

18. International Auditing and Assurance Standards Board

The IAASB will meet in Sydney from 16 - 20 April 2007. Click [here](#) for the background papers. Further details about the meeting will be reported in the next Issue of TechWatch.

19. International Ethics Standards Board for Accountants

The IESBA will meet in Berlin on 25 - 26 June 2007. Click [here](#) for information about the June 2007 meeting and the meeting summary of the March 2007 meeting held in New York.

Comment Due Dates

10 April 2007: IASB Discussion Paper on *Fair Value Measurements*.

10 April 2007: IASB Exposure Draft of Proposed Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary*.

16 April 2007: IAASB Exposure Drafts of ISA 540 (Revised and Redrafted) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and ISA 580 (Revised and Redrafted) *Written Representations*.

16 April 2007: IFAC IESBA Exposure Draft on Auditor Independence Requirements – Section 290 of the Code of Ethics *Independence – Audit and Review Engagements* and section 291 of the Code of Ethics *Independence – Other Assurance Engagements*.

4 May 2007: IASB Exposure Draft of Proposed Amendments to IAS 24 *Related Party Disclosures – State-controlled Entities and the Definition of a Related Party*.

18 May 2007: IAASB Exposure Drafts of ISA 570 (Redrafted) *Going Concern*.

30 May 2007: Government Consultation Paper on proposals to improve the accounting and auditing provisions of the Companies Ordinance.

15 June 2007: IAASB Exposure Drafts of ISA 550 (Revised and Redrafted) *Related Parties*.

1 September 2007: IASB Exposure Draft of Proposed IFRS for Small and Medium-sized Entities.

Please send comments to
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