



# 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@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk) >. Click [here](#) for past issues.

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## Spotlight

### 1. Technical Update Evening (TUE) Programme – May to July 2007

The **TUE programme** covering the period from May to July 2007 features a number of important financial reporting and auditing topics, which include:

- 708 (12 June) Consultation Paper on the Rewrite of the Accounting and Auditing Provisions of the Companies Ordinance – Highlights of the Proposals
- 709 (26 June) Insurance Contracts
- 710 (17 July) Exposure Draft of IFRS for SMEs – Is it suitable for Hong Kong?

To secure your seats, please register early by completing the **registration form** and returning it to the Institute.

### 2. IFAC Global Survey on the Financial Reporting Supply Chain

The International Federation of Accountants (IFAC) is inviting all participants in the financial reporting supply chain, including investors and other users of financial reports, standard setters, preparers, auditors, academics, and regulators to complete a global survey.

The survey is part of an IFAC project designed to analyse the financial reporting supply chain and to develop recommendations to further improve the quality of financial reporting. It asks views on three key areas: corporate governance, the process of preparing financial reports and financial auditing. It also asks some questions about financial reports and their usefulness.

The survey, which may be completed through **July 6 2007**, can be accessed online at:  
< <http://www.ifac.org/financialreportingsurvey/> >.

## Financial Reporting

### 3. Invitation to Comment on IASB Discussion Paper on *Preliminary Views on Insurance Contracts*

The Institute has issued an **Invitation to Comment** on the IASB Discussion Paper on *Preliminary Views on Insurance Contracts*, with comments requested by **29 September 2007**.

The discussion paper proposes that an insurer should measure its insurance liabilities using the following three building blocks:

- explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows.
- current market discount rates that adjust the estimated future cash flows for the time value of money.
- an explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin).

The discussion paper suggests that an informative and concise term for a measurement that uses the three building blocks is “current exit value”, which is defined as the amount an insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. “Current exit value” is not meant to imply that an insurer does not intend to settle its obligations with the policyholder. The purpose of specifying this measurement objective is to provide useful information that will help users make economic decisions.

The discussion paper also addresses several other topics, including policyholder behaviour, participating contracts and the reporting of changes in insurance liabilities.

#### 4. Institute Comments on IASB Documents

(i) Discussion Paper on *Fair Value Measurements*

The IASB Discussion Paper on *Fair Value Measurement* sets out the IASB's preliminary views on providing consistency in the measurement of fair value that is dispersed widely in existing International Financial Reporting Standards (IFRSs).

The Institute's **submission** supports the IASB's initiative in establishing a clear definition of fair value and developing a single set of guidance on *how* fair value is measured.

The Institute, however, considers that while the proposals in the discussion paper, which are based on US GAAP, are generally appropriate to financial instruments, IFRSs use fair measurement in a wider context.

The Institute also considers that the question of *when* to adopt fair value as the most appropriate measurement attribute is an important debate, which requires further consultation of preparers, users and auditors.

(ii) ED of Proposed Amendments to IFRS 1

The IASB exposure draft ("ED") of Proposed Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary* was issued in response to concerns about difficulties encountered by parent companies in measuring the cost of an investment in a subsidiary on adopting IFRSs.

The ED proposes to allow a parent company to use a deemed cost to measure its investment in subsidiaries when it first adopts IFRSs. This deemed cost can be determined by reference to the parent's investment in the net assets of the subsidiary or the fair value of the parent's

investment. The ED also provides further relief by proposing a simplified approach to determining the pre-acquisition accumulated profits of a subsidiary.

The Institute's **submission** supports allowing a parent to use a deemed cost to measure its investment in subsidiaries when it first adopts IFRSs. The Institute, however, raises concerns about the appropriateness of the proposed measures of the deemed cost, and of the proposed simplified approach to determining the pre-acquisition accumulated profits of a subsidiary.

(iii) ED of Proposed Amendments to IAS 24

The IASB ED of Proposed Amendments to IAS 24 *Related Party Disclosures – State-controlled Entities and the Definition of a Related Party* proposes to exempt entities that are related only because they are either state-controlled or significantly influenced by the state from the disclosure requirements in IAS 24. The changes are in response to concerns about the difficulties that these entities have in identifying other entities that are controlled or significantly influenced by the state. The proposed exemption is limited to those circumstances in which there are no indications that the entity influenced, or was influenced by, the related party.

The ED also proposes to amend, clarify and in certain cases extend, and restructure the definition of a related party to remove inconsistencies and improve readability.

The Institute's **submission** supports the proposed exemption in disclosure requirements. It agrees that eliminating the disclosure requirements under those circumstances will enable preparers and users of financial statements to focus on the substance of the related party relationships that are likely to affect the financial statements. In addition, the Institute generally considers that the proposed amendments in the definition of a related party would help removing inconsistencies in the extant standard.

## 5. IASB Staff Overview of the ED of the proposed IFRS for SMEs

IASB has issued a **Staff Overview** of the exposure draft (“ED”) of the proposed International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The overview is intended to be a high level introduction to the ED. It should be noted that the overview has not been approved by the IASB, and it is not intended to serve as the basis for commenting on the ED.

## 6. FRSC Meeting Summary – 11 April 2007

This **FRSC meeting summary** covers:

- Work plan for 2007
- Proposal for the formation of Working Groups
- Draft submission on IASB Discussion Paper on *Fair Value Measurements*
- Draft submission on IASB ED of Proposed Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary*
- Proposed revised HKAS 23 *Borrowing Costs*
- Report on meeting with IASB Conceptual Framework project team members and National Standard Setters meeting
- Policy on providing Interpretations or Rulings on financial reporting issues

### Audit & Assurance

## 7. Invitation to Comment on IAASB EDs of ISA 200, ISA 250 and ISA 500

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

**Part A** – ISA 250 (Redrafted) *The Auditor’s Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements*, with comments requested by **13 July 2007**.

**Part B** – ISA 200 (Revised and Redrafted) *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing* and ISA 500 (Redrafted) *Considering the Relevance and Reliability of Audit Evidence*, with comments requested by **31 August 2007**.

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

**ISA 250** – redrafted to contain clearer requirements and easy to understand application guidance, with no changes proposed to the requirements in the standard.

**ISA 200** – revised and redrafted to:

- include an adequate discussion of the premises on which an audit is conducted;
- contain a brief summary of the nature of an audit of financial statements in order to introduce related concepts to provide a proper understanding of the conduct of an audit so as to achieve its objective, the overall objective of the independent auditor, and the objectives and requirements stated in the ISAs;
- incorporate the relevant provisions of the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* reissued in January 2007 to reflect the effect of the new drafting conventions being used for the purposes of ISAs; and
- reposition a requirement for the auditor to obtain sufficient appropriate audit evidence from extant ISA 500 *Audit Evidence* to the proposed ISA 200.

**ISA 500** – redrafted to contain clearer requirements and easy to understand application guidance, with no changes proposed to the requirements in the standard except for:

- moving the requirement for the auditor to obtain sufficient appropriate evidence from extant ISA 500 to the proposed ISA 200 (Revised and Redrafted). As a result of the repositioning of this requirement, the proposed ISA 500 focuses on the auditor’s responsibility to design and perform audit procedures to obtain relevant and reliable audit evidence. The proposed ISA 500 has been re-titled accordingly; and
- moving the material regarding selecting all items and specific items in relation to gathering of audit evidence from the extant ISA 530 *Audit Sampling and Other Means of Testing* to the proposed ISA 500 in order to provide a clearer focus on sampling in ISA 530. The IAASB plans to release the proposed ISA 530 (Redrafted) before the close of the comment period for the proposed ISA 500.

## 8. Institute Comments on IAASB EDs of proposed Revised and Redrafted ISAs on Accounting Estimates and Written Representations

The Institute’s **submissions** to the IAASB on the EDs of proposed ISA 540 (Revised and Redrafted) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and proposed ISA 580 (Revised and Redrafted) *Written Representations* indicate that it is supportive of the redrafting and that, generally, the objective to be achieved by the auditor, as stated in each of the proposed revised and redrafted ISA, is appropriate. Furthermore, 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 the use of professional judgement by auditors.

**ISA 540** – the Institute recommended that further clarifications be provided on the requirements in relation to risk assessment procedures and the need to use the work of an auditor’s expert.

**ISA 580** – the Institute recommended that further clarifications be provided in the application guidance that it is not envisaged that the proposed confirmation by management on internal controls would entail a comprehensive assessment of the effectiveness of internal controls by management, but rather it is on the assessment of internal controls relating to financial reporting. In addition, the Institute did not agree with the proposed requirement such that the auditor must disclaim an opinion on the financial statements when relevant parties do not provide the general written representations. Given that International Standards on Auditing are principles-based standards, auditors should have the discretion to exercise professional judgment as to whether or not it should issue a disclaimer on the financial statements rather than having a mandatory rule in this respect. closed on 30 May.

## 9. AASC Meeting Summary – 24 April 2007

This **AASC meeting summary** covers:

- Draft submissions on IAASB EDs of ISA 230 (Redrafted) *Audit Documentation*, ISA 560 (Redrafted) *Subsequent Events*, ISA 610 (Redrafted) *The Auditor’s Consideration of the Internal Audit Function* and ISA 720 (Redrafted) *The Auditor’s Responsibility in relation to Other Information in Documents Containing Audited Financial Statements*
- HKICPA Invitation to Comment on IAASB Exposure Drafts of Proposed ISA 540 (Revised and Redrafted) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and proposed ISA 580 (Revised and Redrafted) *Written Representations*
- IAASB advice on Auditors’ Reports on Special Purpose Audit Engagements

- HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* and HKSA 701 *Modifications to the Independent Auditor's Report*
- Proposed Working Group to consider the Reporting on General Charitable Fundraising Activities (other than Flag Selling)
- Companies (Revision of Accounts and Reports) Regulation
- Consultation Paper on the Rewrite of the Accounting and Auditing Provisions in the Companies Ordinance
- Accountant's Report Project – Progress Report
- IAASB Strategy Review Forum in Brussels

## Ethics

### 10. Ethics Committee Meeting Summary – 16 April 2007

This [Ethics Committee meeting summary](#) of 16 April 2007 covers:

- Draft submission on the IESBA Exposure Draft on sections 290 and 291 of the IFAC Code of Ethics on Independence
- Proposed HKICPA Consultation Paper on Identifying Entities of Significant Public Interest
- Consultation Paper on the Rewrite of the Accounting and Auditing Provisions in the Companies Ordinance
- IESBA Strategic Review Questionnaire

## International Meetings

### 11. International Accounting Standards Board

The IASB met in London on 15 – 18 May 2007 and discussed the following topics:

- Post-employment benefits
- Financial statement presentation
- Conceptual framework
- IAS 37 redeliberations
- Financial instruments puttable at fair value and obligations arising on liquidation
- Update on IFRIC activities
- Annual improvements process
- Leases
- IFRS 2 *Share-based Payments*

Click [here](#) to view the May 2007 IASB Update. The IASB next meets on 18 – 22 June 2007.

### 12. International Financial Reporting Interpretations Committee

The IFRIC met in London on 3 and 4 May 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* – Customer contributions
- IAS 18 *Revenue* – Guidance on identifying agency arrangements
- IAS 18 *Revenue* – Sales of real estate
- IAS 19 *Employee Benefits* – Timetable for IAS 19 issues
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* – Hedging of a net investment in a foreign operation
- IAS 27 *Consolidated and Separate Financial Statements* – Demergers and other in-specie distributions

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Disclosures
- IFRIC agenda decisions
- Tentative agenda decisions

Click [here](#) to view the May 2007 IFRIC Update. The IFRIC next meets on 12 – 13 July 2007.

### 13. International Auditing and Assurance Standards Board

The IAASB will meet in Warsaw, Poland on 9 – 13 July 2007. Click [here](#) for registration and the background papers.

### 14. International Ethics Standards Board for Accountants

The IESBA will meet in Berlin on 25 – 27 June 2007. Click [here](#) for registration and the background papers.

#### For Information

### 15. Hong Kong Tax Cases Volume 6 2<sup>nd</sup> Supplement Available for Sale

The Hong Kong Tax Cases Volume 6 2<sup>nd</sup> Supplement covers 10 cases between 2002-2006, namely HCAL: 98/2003, 105/2004, 49/2005, 204/2002, 119/2005, HCIA: 13/2005, 10/2005, FACV 29/2005, CACV 286/2006 and DCTC 7883/2005.

The publication may be purchased by:

- Calling the Publications Sales Section of Information Services Department (ISD) at 2537 1910.
- Visiting the [online Government Bookstore](#) at the ESD Life website (under the section: “Browse and Shop” > “Tax Cases”).
- Downloading the [order form](#) from the ISD website and submit the order online or by fax to 2523 7195.
- Placing order with ISD by e-mail at [puborder@isd.gov.hk](mailto:puborder@isd.gov.hk).

### 16. Companies Registry News Update

- (i) Companies Ordinance (Amendment of Eighth Schedule) Order 2007 gazetted

The Companies Ordinance (Amendment of Eighth Schedule) Order 2007, which is to amend the fees concerning “oversea” companies in the Eighth Schedule to the Companies Ordinance, has been gazetted. The Order aims to restructure the existing filing fees for oversea companies, introduce a new fee for the issue of certificates of registration in respect of such companies and make consequential amendments to Part V of the Eighth Schedule insofar as it relates to the renaming of oversea companies as “non-Hong Kong” companies.

A related [press release](#) has been posted on the Companies Registry’s website.

- (ii) New Information Leaflet

An information leaflet “[Incorporation or Change of Name of a Local Limited Company - Points to note](#)” has been posted on the Companies Registry’s website.

#### Comment Due Dates

**15 June 2007:** [IAASB Exposure Draft](#) of ISA 550 (Revised and Redrafted) *Related Parties*.

**10 July 2007:** [IASC Foundation Consultation Document](#) on Proposed Amendments to the IASC Foundation Constitution and the Preface to International Financial Reporting Standards – *Enlarging the IFRIC*.

**13 July 2007:** [IAASB Exposure Draft](#) of ISA 250 (Redrafted) *The Auditor’s Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements*

**31 August 2007:** [IAASB Exposure Draft](#) of ISA 200 (Revised and Redrafted) *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*



**31 August 2007: IAASB Exposure Draft** of  
ISA 500 (Redrafted) *Considering the  
Relevance and Reliability of Audit Evidence*

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

**29 September 2007: IASB Discussion Paper**  
on *Preliminary Views on Insurance Contracts*

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