



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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Financial Reporting

1. Institute Comments on international Pronouncements

(i) IFRIC Draft Interpretation D22 *Hedges of a Net Investment in a Foreign Operation*

IFRIC Draft Interpretation D22 proposes that hedge accounting should only be applied to the foreign exchange differences arising between the functional currency of the foreign operation and the functional currency of any parent entity. It proposes not to allow the use of hedge accounting when translating a functional currency into a presentation currency because the IFRIC takes the view that this mere translation of currency for presentation use does not represent a hedgeable economic risk.

It also proposes that the hedging instrument may be a derivative or a non-derivative instrument (or a combination of both) and may be held by any subsidiary or the parent entity within a group regardless of the entity's functional currency.

As stated in the [submission](#), the Institute generally supports the proposals but expresses concerns over certain areas. It considers that further clarification is needed as to whether, when the hedged risk is the foreign currency variability relative to the functional currency of an intermediate parent, the qualifying hedging instrument must be held within the sub-group comprising the intermediate parent and its subsidiaries. It also expresses concerns that the proposal might induce the imputation of foreign currency risks that do not exist within a hedging instrument in certain situations.

(ii) IASB Discussion Paper *Preliminary Views on Insurance Contracts*

The Discussion Paper presents the IASB's initial thoughts on how to finish the project that it has started with IFRS 4 *Insurance Contracts*. It also sets out a single, comprehensive measurement standard for insurance contracts.

The Discussion Paper proposes that an insurer should measure its insurance liabilities using three building blocks, which seek to provide more relevant information about the future cash flows arising from existing insurance contracts and a consistent approach for all types of insurance contracts. It also addresses several other topics, including policyholder behaviour, participating contracts and the reporting of changes in insurance liabilities.

As stated in the [submission](#), the Institute is broadly supportive of the proposals set out in the Discussion Paper. It notes that the proposals may introduce fundamental changes to insurance accounting and focus on market consistent measurement of insurance liabilities and will impact the way investors, regulators and other stakeholders assess the insurance industry.

(iii) IASB ED of a proposed *IFRS for Small and Medium-sized Entities*

The proposed standard is intended for use by SMEs, where SMEs are defined as entities that (1) do not have public accountability and (2) publish general purpose financial statements for external users. The aim of the proposed standard is to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies and are based on full IFRSs, developed primarily for listed companies.

While supporting the IASB's initiative in developing a standard that takes into account the needs of the users of their financial statements and cost-benefit considerations, the Institute does not support the adoption of the proposed standard as it currently stands for small entities. In its [submission](#), the Institute considers that the proposed standard is too complex for small entities and therefore, it does not plan to adopt the proposed standard for small entities in Hong Kong. It also advocates the use of historical cost convention as the primary measurement base for small entities.

The Institute considers that the title of the proposed standard is misleading, as it is intended for use by entities that are not publicly accountable rather than entities that fall below a certain size.

The proposed standard has considerable cross-references to full IFRSs, which means that a user of the proposed IFRS for SMEs may have to refer to both the proposed standard and full IFRSs, depending on the accounting options chosen. The Institute is not supportive of this approach. It advocates for a complete standalone document, i.e., no fallback to full or specific topics in IFRSs nor cross-references to options available in IFRSs. In addition, It advocates that all accounting policy options available in full IFRSs should also be available in the proposed standard.

2. Invitation to Comment on IASB ED of Proposed Improvements to IFRSs

The Institute has issued an [Invitation to Comment](#) on IASB Exposure Draft of proposed Improvements to International Financial Reporting Standards (“IFRSs”), with comments requested by **14 December 2007**.

The ED proposes miscellaneous amendments to 25 IFRSs under its first annual improvements project. The proposals are ranging from a restructuring of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, mainly to remove redundant transitional provisions, to minor changes of wording to clarify the meaning and remove unintended inconsistencies between IFRSs.

3. FRSC Meeting Summaries – 12 September and 10 October 2007

The [FRSC meeting summary](#) of 12 September 2007 covers:

- Draft submission on IASB ED of a proposed IFRS for SMEs
- IASB ED of proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting*

- Proposed revised HKAS 1 *Presentation of Financial Statements*
- Accounting treatment of Mainland Land Appreciation Tax
- HKEx Consultation Paper on Periodic Financial Reporting
- Sub-Committee and Project Working Group – Progress report
- Members’ Handbook Volume II Update project

The [FRSC meeting summary](#) of 10 October 2007 covers:

- Work plan for 2007 – progress report
- IASB ED of a proposed IFRS for SMEs
- IFRIC Draft Interpretation D22 *Hedges of a Net Investment in a Foreign Operation*
- IASB Discussion Paper *Preliminary Views on Insurance Contracts* – progress report
- National Standard Setters Meeting and World Standard Setters Meeting

Audit & Assurance

4. Institute Issues Guidance on Reporting on General Charitable Fund-raising Activities

The Institute has issued a [Circular](#) to provide guidance to practising members in relation to the reporting on general charitable fund-raising activities covered by Public Subscription Permits issued by Social Welfare Department (“SWD”) (other than flag days).

The Institute’s Auditing and Assurance Standards Committee, in consultation with SWD, considers that the report required under the Permit conditions should be a limited assurance engagement to be carried out by practising members under Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

An illustrative example is provided, which has been developed in consultation with SWD. Members are reminded to use their professional judgement to ascertain the exact circumstances of each of their engagements.

5. Institute Comments on IAASB EDs: ISA 510 (Redrafted) *Initial Audit Engagements – Opening Balances* and ISA 530 (Redrafted) *Audit Sampling*

The Institute's [submissions](#) to the IAASB on the EDs of proposed ISA 510 (Redrafted) and ISA 530 (Redrafted) indicate that it is supportive of the redrafting and that, generally, the objectives to be achieved by the auditor, as stated in the proposed redrafted ISAs, are appropriate.

Other comments on significant proposals include:

- As regards ISA 510 (Redrafted), the Institute agrees with the IAASB's proposal to remove the restriction in the extant ISA 510 where the auditor can express an unmodified opinion on the closing financial position of the entity and a qualified or disclaimer of opinion on the results of operations and cash flows.
- As regards ISA 530 (Redrafted), the Institute agrees with the IAASB's proposals to:
 - Remove material in extant ISA 530 dealing with selection of items for testing by means other than sampling to proposed ISA 500 (Redrafted) *Considering the Relevance and Reliability of Audit Evidence*.
 - Require an auditor to obtain a high degree of certainty that a misstatement or deviation is not representative of the population.
 - Clarify the responsibilities of the auditor with respect to the projection and evaluation of sample results.

In addition, the Institute recommends that examples to further illustrate what is an anomalous error and work an auditor needs to perform in extant ISA 530 should be elevated to the proposed ISA.

6. AASC Meeting Summary – 30 October 2007

This [AASC meeting summary](#) covers:

- IAASB announcement on the effective date for the Clarity Project
- Adoption of ISA 600 (Revised and Redrafted) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*
- Draft submissions to IAASB on EDs of ISA 510 (Redrafted) *The Initial Audit Engagement – Opening Balances* and ISA 530 (Redrafted) *Audit Sampling*
- Draft Invitation to Comment on the IAASB EDs of ISA 505 (Revised and Redrafted) *External Confirmations* and ISA 620 (Revised and Redrafted) *Using the Work of an Auditor's Expert*
- Continuing Connected Transactions Project – Progress Report
- Draft Notes for Auditor for the Legislative Council Election Financial Assistance Scheme
- Invitation to Comment on draft Discussion Paper *Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting*
- Proposed Circular on Reporting on General Charitable Fund-raising Activities (Other than Flag Days)
- HKEx Consultation Paper on Periodic Financial Reporting

Corporate Finance

7. Institute Comments on Proposals for Periodic Financial Reporting

As reported in [TechWatch No. 60](#), Hong Kong Exchanges and Clearing Limited ("HKEx") issued a [consultation paper](#) in August 2007 to seek views on shortening of half-yearly and year-end reporting deadlines and introducing quarterly reporting requirements for main board listed companies.

As stated in the Institute's [submission](#), in principle, HKEx's proposals to shorten the deadlines for the release of half-yearly and year-end results announcements and reports by main board issuers are acceptable, i.e., shortening the deadline for announcements and reports of half-yearly results from three to two months, and for year-end results, from four to three months.

While the Institute also considers that timely reporting of relevant information, e.g., price-sensitive information, is good corporate governance and should be carried out on a continuous basis, the Institute is not convinced that mandatory reporting of financial information on a quarterly basis will achieve the objectives stated in the consultation paper, i.e., increasing market efficiency and investor protection. The concern is that mandatory quarterly financial reporting will increase costs for business without offering commensurate benefits to shareholders and other stakeholders. Furthermore, in markets where quarterly financial reporting already exists, it seems to encourage a focus on the short-term results rather than a longer-term, strategic, outlook.

The institute would, instead, favour the adoption of the UK approach of issuing regular "management statements", covering, for example:

- an explanation of material events and transactions occurring during the relevant period and their impact on the company's financial position;
- an indication of any special factors that have influenced the company's business and performance during the period;

- a general indication of future developments and prospects.

Click [here](#) to read other responses to the consultation paper on periodic financial reporting, which are posted on the HKEx's website.

8. Institute Comments on Proposals for Future Development of GEM

As reported in [TechWatch No. 59](#), after conducting a consultation in early 2006 on the way forward for the Growth Enterprise Market ("GEM"), in July 2007, HKEx released a follow-up [consultation paper](#) on proposals for further developing the GEM as a second board, and positioning it as a stepping-stone to the main board.

The Institute believes that the GEM is not attractive to investors and to companies probably because the relatively low level of market activity on the GEM, which, in turn, may be due to issues over quality and image, amongst other things. However, the Institute has reservations about the effectiveness of the latest proposals, to introduce new quantitative requirements for listing on the GEM and streamline the process and procedures for transferring listings to the main board, as a means of re-activating the GEM.

In its [submission](#), the Institute reiterates its [earlier view](#) as to the best overall approach for the GEM, namely, to retain the GEM as a second board, without specifically positioning it as a stepping-stone to the main board. Instead, more effort and resources should be invested in developing and promoting the GEM's own brand and establishing a more robust regulatory regime.

Corporate Governance

9. Results of the 2007 Best Corporate Governance Disclosure Awards

The Institute's 2007 Best Corporate Governance Disclosure Awards ("the Awards") was successfully concluded with the presentation ceremony for the Awards held at a luncheon event on 22 November 2007. The guest of honour, the chairman of the Securities and

Futures Commission, Mr. Eddy C. Fong, presented the awards to the winners.

The results of the 2007 Awards were announced at a [press briefing](#) held prior to the luncheon. At the press briefing, senior representatives of the award winners briefly addressed the audience about corporate governance in their companies/organisations.

The winners of the 2007 Awards are:

Hang Seng Index Category

Diamond – CLP Holdings Ltd.
 Platinum – HSBC Holdings plc
 Gold – Hong Kong Exchanges and Clearing Ltd.
 Special Mention – MTR Corporation Ltd.

Non-Hang Seng Index Category

Diamond – Standard Chartered PLC
 Platinum – Hysan Development Co. Ltd.
 Gold – Transport International Holdings Ltd.
 Significant Improvement – Agile Property Holdings Limited

H-share Companies Category

Diamond – Shenzhen Expressway Co. Ltd.
 Platinum – Jiangsu Expressway Co. Ltd.
 Gold – China Shenhua Energy Company Ltd.
 Special Mention – Huaneng Power International Inc.

Growth Enterprise Market Category

Commendation – Global Digital Creations Holdings Limited

Public Sector/Not-For-Profit Organisations

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

In addition to the results, the [judges' report](#) for the 2007 Awards contains brief commentaries on the winning annual reports, the observations of the judges and reviewers on the overall standard of corporate governance disclosures and practices in Hong Kong, based on their review of the annual reports that were entered in the competition, as well as other background information.

Insolvency & Corporate Restructuring

10. ORO Invites Tenders for Taking Up of Appointment as Provisional Liquidators

The Official Receiver's Office ("ORO") is inviting practitioners to submit tenders for taking up appointments as provisional liquidators under s. 194(1A) of the Companies Ordinance. The deadline for submission is 12:00 noon on 8 January 2008. The tender form and other relevant documents can be obtained from the ORO at 10th Floor, Queensway Government Offices, 66 Queensway, Hong Kong or downloaded from the [ORO's website](#).

11. ORO Reviews Guidelines for Administrative Panel of Insolvency Practitioners for Court Winding-up ("Panel A" Scheme)

- a. The ORO is initiating a review of the "Panel A" scheme guidelines now that the scheme has been operating for over 10 years. The ORO has indicated that during the review, it will not accept or process any new applications to join the panel, although applications for replacements of existing appointment takers and insolvency practitioners may be considered.
- b. Separately, the ORO wishes to remind practitioners that the terms "appointment taker" (or "AT") and "insolvency practitioner" (or "IP") used in the context of the Panel A scheme are incidental to a firm's registration.

Click [here](#) for the ORO's letter in respect of the above matters and [here](#) for the Institute's response.

Legislation & Other Initiatives

12. Anti-Money Laundering/Anti-Terrorist Financing

Members should take note of the following regulations, made under the United Nations Sanctions ("UNS") Ordinance (Cap.537) and published in the government gazette:

L.N. 64 – [UNS \(Cote d'Ivoire\) Regulation 2007](#)

L.N. 120 – [UNS \(Democratic People's Republic of Korea\) Regulation](#)

L.N. 179 – [UNS \(Iran\) Regulation](#)

The following Government Notices published in the gazette provide updated lists of "relevant persons and entities" specified under the UNS Regulations of the jurisdictions below:

G.N. 3109 – [UNS \(Cote d'Ivoire\) Regulation 2007](#)

G.N. 3449 – [UNS \(Democratic Republic of Congo\) Regulation 2006](#)

G.N. 6273 – [UNS \(Sudan\) Regulation](#)

G.N. 6431 – [UNS \(Iran\) Regulation](#)

In addition, the US government has designated additional names to the list under the [United States Executive Order 13224](#).

For more background information, see the Institute's [Legal Bulletin 1](#), "Requirements on Anti-money Laundering, Anti-terrorist Financing and Related Matters".

International Meetings

13. International Accounting Standards Board

The IASB met in London on 13 – 16 November 2007 and discussed the following topics:

- Revenue recognition
- Insurance
- IAS 24 *Related Party Disclosures*
- Share-based payment
- Update on IFRIC activities
- Financial statement presentation

- Consolidation
- Business combinations
- Puttable financial instruments and obligations arising on liquidation
- Fair value measurements
- Conceptual framework

Click [here](#) to view the November 2007 IASB Update. The IASB next meets on 10 – 14 December 2007.

14. International Financial Reporting Interpretations Committee

The IFRIC met in London on 1 November 2007 and discussed the following topics:

- IAS 18 *Revenue* – Customer contributions
- IAS 19 *Employee Benefits* – Death in service benefits
- IAS 27 *Consolidated and Separate Financial Statements* – Accounting for distributions of non-cash assets to owners
- IAS 39 *Financial Instruments: Recognition and Measurement* – Scope of paragraph 11A and application of paragraph AG33(d)(iii)
- IFRIC agenda decisions
- Tentative agenda decisions
- IFRIC work in progress

Click [here](#) to view the November 2007 IFRIC Update. The IFRIC next meets on 10 – 11 January 2008.

15. International Auditing and Assurance Standards Board

The IAASB will meet in Washington DC, USA from 10 – 14 December 2007. Click [here](#) for the background papers of the meeting.

16. International Ethics Standards Board for Accountants

The IESBA held a Conference Call on 28 November 2007 at 7 a.m. New York time (EST). Click [here](#) for the background papers and for registration of the next IESBA meeting, to take place in Amsterdam, the Netherlands from 21 – 23 January 2008.

For Information

17. Standing Committee on Company Law Reform Publishes 2006/07 Annual Report

The Standing Committee on Company Law Reform (“SCCLR”) **announced** the publication of its Twenty-Third **Annual Report** 2006/2007. The annual report covers subjects considered by the SCCLR from 1 April 2006 to 31 March 2007, including the Rewrite of the Companies Ordinance.

18. Non-statutory Guidelines on Directors’ Duties Revised

An updated version of the **Non-statutory Guidelines on Directors’ Duties** is now available on the Companies Registry’s website.

Comment Due Dates

14 December 2007: IAASB Exposure Drafts of

- ISA 220 (Redrafted) *Quality Control for an Audit of Financial Statements*
- ISQC 1 (Redrafted) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

14 December 2007: **IASB Exposure Draft** of proposed Improvements to International Financial Reporting Standards

14 December 2007: **IASB Exposure Draft 9** *Joint Arrangements*

25 January 2008: **IAASB Exposure Drafts** of ISA 505 (Revised and Redrafted) *External Confirmations* and ISA 620 (Revised and Redrafted) *Using the Work of an Auditor’s Expert*

31 January 2008: **Discussion Paper** *Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting*

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