



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 >. Click [here](#) for past issues.

Contents

Spotlight

1. [Handbook Updates No. 46, 47 and 48](#)
2. [New Technical Update Evening \(TUE\) Programme – February to April 2008](#)

Financial Reporting

3. [HKAS 1 \(Revised\) *Presentation of Financial Statements* \(Handbook Update No. 46\)](#)
4. [Invitations to Comment on IFRIC Draft Interpretations](#)
 - (i) [D23 *Distributions of Non-cash Assets to Owners*](#)
 - (ii) [D24 *Customer Contributions*](#)
5. [Institute Comments on IASB Exposure Drafts](#)
 - (i) [ED 9 *Joint Arrangements*](#)
 - (ii) [ED of Proposed Amendments to IAS 39](#)
 - (iii) [ED of Proposed Improvements to IFRSs](#)
6. [FRSC Meeting Summary – 12 December 2007](#)

Audit & Assurance

7. [Invitations to Comment on IAASB Exposure Drafts](#)
 - (i) [ISA 265, ISA 402, ISA 501, ISA 520 and ISAE 3402](#)
 - (ii) [ISA 210 and ISA 710](#)
8. [Institute Comments on IAASB EDs of ISA 220 \(Redrafted\) and ISQC 1 \(Redrafted\)](#)

Corporate Finance

9. [HKEx Invites Views on 18 Substantive Policy Issues](#)

Taxation

10. [2008 Annual Meeting with the Inland Revenue Department](#)
11. [OECD Publishes Study into the Role of Tax Intermediaries](#)

Legislation & Other Initiatives

12. [Anti-money Laundering/Combating Terrorist Financing](#)

International Meetings

13. [International Accounting Standards Board](#)
14. [International Financial Reporting Interpretations Committee](#)
15. [International Auditing and Assurance Standards Board](#)
16. [International Ethics Standards Board for Accountants](#)

For Information

17. [Companies Registry News](#)
18. [2008 Digital 21 Strategy](#)
19. [New Publications](#)

Comment Due Dates



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Spotlight

1. Handbook Updates No. 46, 47 and 48

- **Update No. 46** encloses revisions to HKAS 1 *Presentation of Financial Statements*. Further details are set out in the “Financial Reporting” section below.
- **Update No. 47** contains consequential amendments to HKFRSs arising from the issuance of new Standards, new Interpretations or amendments to existing Standards.
- **Update No. 48** contains consequential amendments to HK (IFRIC) Interpretations and HK (SIC) Interpretations arising from the issuance of new Standards.

2. New Technical Update Evening (TUE) Programme – February to April 2008

The new **TUE programme** covering the period from February to April 2008 features a number of important financial reporting and auditing topics, which include:

- 801 (19 Feb) HKFRSs Year End Update
- 802 (27 Feb) PN 820 - The Audit of Licensed Corporations and Associated Entities of Intermediaries
- 803 (11 March) Liability or Equity - HKAS 32 *Financial Instruments: Presentation*
- 804 (8 April) Reporting on General Charitable Fund-Raising Activities covered by Public Subscription Permits issued by Social Welfare Department (Other than Flag Days) and Audit of Accounts of Owners' Corporation of Buildings
- 805 (22 April) HKAS 1 (Revised) *Presentation of Financial Statements*

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

Financial Reporting

3. HKAS 1 (Revised) *Presentation of Financial Statements* (Handbook Update No. 46)

HKAS 1 (Revised) is effective for annual periods beginning on or after 1 January 2009, the same effective date as revised IAS 1 *Presentation of Financial Statements*. Earlier application is permitted. It supersedes the extant HKAS 1 (issued March 2004), which is applicable for annual periods beginning on or after 1 January 2005.

The revised HKAS 1 requires an entity to present all non-owner changes in equity (i.e. comprehensive income) either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income may not be presented in the statement of changes in equity.

In addition, an entity is required to present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement. It also changes the titles of some of the financial statements in the standards, but these titles need not be applied in the financial statements.

4. Invitations to Comment on IFRIC Draft Interpretations

The Institute has issued two Invitations to Comment on the following IFRIC Draft Interpretations, with comments requested by **31 March 2008**.

- (i) *D23 Distributions of Non-cash Assets to Owners*

IFRIC D23 proposes that all types of distributions of non-cash assets would be measured at the fair value of the assets distributed. Therefore:

- When an entity incurs an obligation to distribute non-cash assets to its owners (a dividend payable), it should measure the obligation at the fair value of the non-cash assets.
- When an entity settles the dividend payable, it should recognise any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

The one exception is that IFRIC D23 does not apply to a distribution of an asset to another entity within the same consolidated group. IFRIC D23 would be applied prospectively, i.e., to future distributions.

(ii) D24 *Customer Contributions*

IFRIC D24 proposes the following accounting for the receipt of customer contributions:

- All access providers will be required to recognise contributed assets and revenue from providing access to a supply of goods or services over the period access is provided.
- Access providers that have previously not recognised contributed assets will now be required to recognise increased property, plant and equipment and revenue.
- Access providers that have previously recognised revenue immediately on the receipt of a contributed asset will now be required to recognise it over a longer period.

IFRIC D24 would be applied prospectively.

5. Institute Comments on IASB Exposure Drafts

(i) ED 9 *Joint Arrangements*

The ED proposes to replace the existing IAS 31 *Interests in Joint Ventures* in order to

remedy the following perceived shortcomings in IAS 31 that:

- the legal form is the primary determinant of the accounting for joint arrangements; and
- an entity has a choice of accounting treatment for interests in jointly controlled entities.

As stated in the [submission](#), the Institute supports the IASB's continuing efforts to improve financial reporting standards.

However, it does not consider that this ED provides improved financial reporting. The Institute considers that it is premature for the ED to adopt the concept of rights and obligations in a joint control environment. In addition, it considers that the ED provides a range of accounting outcomes that will, in effect, permit a mix of equity accounting and quasi-proportionate consolidation, which will not achieve the IASB's objective.

For these reasons, the Institute does not support the proposals in ED 9 and recommends this project be deferred until the IASB has the time and resources to conduct a full review of the appropriate accounting for joint arrangements.

(ii) ED of Proposed Amendments to IAS 39

The ED of proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting* was issued to provide clarity in identifying a qualifying hedge accounting relationship. It specifies the risks that qualify for designation as hedged risks when an entity hedges its exposure to a financial instrument and restricts when an entity can designate a portion of the cash flows of a financial instrument as a hedged item.

The Institute's [submission](#) to the IASB indicates that it is supportive of the IASB's initiative to clarify the areas of risks that are eligible for hedge accounting and the portion of the cash flows that can be designated as

a hedged item under IAS 39. The Institute recognises that hedge accounting in IAS 39 is more rules-driven than principles-based and as the amendments' objective is to provide clarity in identifying a qualifying hedge accounting relationship, we accept the necessity for a rules-based approach in the short-term. However, the Institute believes that in the long term, the IASB should develop principles-based standards for financial instruments.

(iii) ED of Proposed Improvements to IFRSs

The ED proposes miscellaneous amendments to 25 International Financial Reporting Standards ("IFRSs") to streamline the process for dealing effectively with a collection of miscellaneous, non-urgent but necessary minor amendments.

In principle, the Institute supports the IASB's objectives in the Improvements project.

However, it finds that, in some cases, the proposed changes to existing Standards in the ED are more than "minor amendments" to be made within the scope of the Improvements project. This is particularly so in areas where unanimous agreement cannot be reached by IASB members. The Institute believes that, under these circumstances, the proposed amendments should be withdrawn and be dealt with as separate projects under the normal due process. Those proposed amendments that are outside the scope of an annual Improvements project are identified in the Institute's [submission](#) to the IASB.

6. FRSC Meeting Summary – 12 December 2007

This [FRSC meeting summary](#) covers:

- IASB ED of proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting*
- IASB ED 9 *Joint Arrangements*
- IASB ED of Proposed Improvements to IFRSs

- Sub-Committee and Project Working Groups – progress report
- China, Japan and Korea Standard Setters Meeting

Audit & Assurance

7. Invitations to Comment on IAASB Exposure Drafts

The Institute has issued two Invitations to Comment on various IAASB Exposure Drafts of ISAs and ISAE for comments:

- (i) [ISA 265, ISA 402, ISA 501, ISA 520 and ISAE 3402](#)

The IAASB is seeking comments on the various proposals in the new and revised ISAs and ISAE in addition to the new clarity drafting conventions.

Part A

(Comments are due on **15 March 2008**)

ISA 501 (Redrafted) *Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures*

The IAASB is proposing to remove the material in extant ISA 501 regarding long-term investments, as the term "long-term investments" is no longer prevalent under IFRS or other major financial reporting frameworks. It is of the view that audit issues in connection with valuation and disclosure of investments would arise principally where estimation uncertainty is misleading. Therefore, guidance in extant ISA 501 may be unhelpful or potentially misleading.

ISA 520 (Redrafted) *Analytical Procedures*

The extant ISA 502, in substance, has little guidance about analytical procedures as part of the auditor's risk assessment. Given that ISA 315 (Redrafted) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* contains the requirement to use analytical procedures as

risk assessment procedures and includes relevant guidance, the IAASB decided that it would be more appropriate for all guidance on analytical risk assessment procedures to be in one place in support of the requirement and consequently, agreed that the relevant material in extant ISA 520 should be relocated to ISA 315.

Part B

(Comments are due on **15 April 2008**)

ISA 265 Communicating Deficiencies in Internal Control and Related Conforming Amendments to Other ISAs

This new proposed standard is intended to deal with the auditor's responsibility to communicate to management and those charged with governance deficiencies in internal control that have been identified by the auditor.

It distinguishes between significant and other deficiencies in order to establish requirements to communicate to the appropriate levels within the audited entity. It also requires the former to be communicated in writing to those charged with governance.

ISA 402 (Revised and Redrafted) Audit Considerations Relating to an Entity Using a Third Party Service Organization

Following a risk-based approach, the proposed ISA deals with the auditor's responsibilities to obtain audit evidence when an entity uses one or more service organisations. This may include obtaining reports prepared by the auditors of those organisations.

Part C

(Comments are due on **15 May 2008**)

ISAE 3402 Assurance Reports on Controls at a Third Party Service Organization

The proposed ISAE is the first subject matter-specific standard developed under the IAASB's International Framework for

Assurance Engagements. It complements proposed ISA 402 (see above) in that reports prepared in accordance with proposed ISAE 3402 will be capable of providing appropriate audit evidence under the proposed ISA 402. It is the intention that this proposed ISAE will help to bring consistency in reporting on controls at service organisations, thereby assisting such organisations to meet the needs of clients and their auditors.

(ii) [ISA 210 and ISA 710](#)

ISA 210 (Redrafted) Agreeing the Terms of Audit Engagements

The proposed ISA 210 deals with the auditor's responsibilities in agreeing the terms of the audit engagement with the entity and responding to a request by an entity to change the terms of an audit engagement for an audit of financial statements. It has been redrafted applying the clarity drafting conventions and the IAASB is seeking comments in this connection and their effect on the content of ISA 210 as well as views on the related conforming amendments to other ISAs as a result of the finalisation of ISA 580 (Revised and Redrafted) *Written Representations* in December 2007.

ISA 710 (Redrafted) Comparative Information – Corresponding Figures and Comparative Financial Statements

The proposed ISA 710 deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. It has been revised for certain significant matter and applying the clarity drafting conventions.

The key changes are:

- The proposed ISA 710 has been restructured to indicate that the auditor's procedures are the same in respect of corresponding figures and comparative financial statements.

- For comparative financial statements, the auditor should obtain written representations from management in respect of each period for which the comparative financial statements are presented.
- For corresponding figures, written representations are required for the financial statements of the current period only, which includes the comparative information for the previous period.
- The proposed ISA 710 has been structured to set out separately the auditor's reporting responsibilities for the two approaches to presenting comparative information.

Comments on ISAs 210 and 710 are requested by **31 March 2008**.

8. Institute Comments on IAASB EDs of ISA 220 (Redrafted) and ISQC 1 (Redrafted)

The Institute's [submission](#) to the IAASB on the EDs of proposed ISA 220 (Redrafted) *Quality Control for an Audit of Financial Statements* and ISQC 1 (Redrafted) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* indicates that it is supportive of the redrafting and that generally, the objectives to be achieved by the auditor, as stated in proposed redrafted ISA and ISQC, are appropriate.

Corporate Finance

9. HKEx Invites Views on 18 Substantive Policy Issues

The Hong Kong Exchanges and Clearing Limited ("HKEx") released a [consultation paper](#) on 11 January 2008 to seek the market's views on eighteen substantive policy issues, including whether to remove the requirement for a listed issuer to employ a qualified accountant as a member of senior management from both the main board and the Growth Enterprise Market Listing Rules ("the Rules"). A summary

table setting out the issues and their respective nature of consultation are contained in the [press release](#).

In addition to the various policy issues, the document sets out, in the appendices, draft amendments to the Rules to implement the different proposals. It also sets out a number of proposed minor amendments to the Rules to update cross-referencing to relevant rules and regulations, clarify certain requirements regarding continuing connected transactions, shareholder meetings, the timing of notices of general meetings, etc.

The consultation deadline is 7 April 2008. Interested parties are encouraged to respond to the consultation by completing and returning the [questionnaire booklet](#) to HKEx.

The consultation paper is being considered by relevant committees within the Institute. Members will be kept informed of developments in future issues of TechWatch.

Taxation

10. 2008 Annual Meeting with the Inland Revenue Department

Representatives of the Institute met the Inland Revenue Department ("IRD") on 25 January 2008 (see [TechWatch No. 61](#)). The minutes of the 2008 annual meeting are being prepared and, once agreed, they will be published as a Tax Bulletin. [Tax Bulletins](#) containing the minutes of past years' annual meetings with the IRD can be accessed at the Institute's website.

As in previous years, it was agreed that information regarding some or more urgent matters could be released prior to the publication of the Tax Bulletin. On this basis, the following points, which were amongst the issues discussed at the meeting, are for members to note and act upon, as appropriate.

- (i) Filing deadlines for 2007/08 Profits Tax Returns

The IRD confirmed that the extended due dates for lodging Profits Tax Returns for the year of assessment 2007/08 are as follows:

- “N” Code – 2 May 2008 (no change)
- “D” Code – 15 August 2008 (no change)
- “M” Code – 15 November 2008 (no change)
- “M” Code (current year loss cases) – 13 February 2009 (changed).

For “M” Code returns, the normal due date (15 November) falls on a Saturday in 2008. As confirmed by the IRD in the 2007 annual meeting (see agenda item A4(a) in [Tax Bulletin 17](#)), Saturdays are not regarded as “general holidays” under the General Holidays Ordinance (Cap.149), and so deadlines falling on a Saturday still apply.

For “M” Code (current year loss cases), the usual practice is to allow an extension to 31 January. However, since the first day of the Chinese New Year holiday in 2009 falls on 26 January 2009, which is close to the usual due date, the due date for these returns will be extended to 13 February 2009.

(ii) New FAQ on share-based payment

A new FAQ on share-based payment, which is to clarify the issue of deductibility of a recharge when a share-based compensation is granted by a parent company to a subsidiary, has been posted on the [IRD’s website](#).

11. OECD Publishes Study into the Role of Tax Intermediaries

The fourth meeting of the OECD’s [Forum on Tax Administration](#) was held in Cape Town on 10 to 11 January 2008. Among other issues, the meeting focused on the conclusions and recommendations of a [study into the role of tax intermediaries](#), which was launched at its 2006 meeting in Seoul. Recognising the impact of aggressive tax planning on tax administration, the study looked into the role played by tax intermediaries in compliance and tax minimisation arrangements and how the tripartite relationship between revenue bodies, taxpayers and tax intermediaries could be further developed.

The Institute contributed to a GAA (Global Accounting Alliance) submission on the initial direction of the study and is pleased to note the final report appears to have taken on board the issues raised in that submission.

Legislation & Other Initiatives

12. Anti-money Laundering/Combating Terrorist Financing

An updated lists of “relevant persons and entities” specified under the United Nations Sanctions (Liberia) Regulation 2005 has been updated in the [government notice 8483](#) that was published in the gazette.

Members may also wish to note that the US government has designated additional names to the list under the [US Executive Order 13224 - Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit, or Support Terrorism](#). They are set out under the following headings:

- Name of individual designated on 12-04-07
- Name of individual designated on 12-06-07
- Name of entity designated on 01-10-08

International Meetings

13. International Accounting Standards Board

The IASB met in London on 22 – 24 January 2008, discussed the following topics:

- Earnings per share
- Annual improvements process
- Revenue recognition
- IAS 24 *Related Party Disclosures*
- Update on IFRIC activities
- Financial instruments
- Liabilities and equity
- Puttable financial instruments and obligations arising on liquidation

- Insurance contracts

Click [here](#) to view the January 2008 IASB Update. The IASB next meets on 18 – 22 February 2008.

14. International Financial Reporting Interpretations Committee

The IFRIC met in London on 10 – 11 January 2008, discussed the following topics:

- IFRIC D21 *Real Estate Sales*
- IFRIC D22 *Hedges of a Net Investment in a Foreign Operation*
- IAS 19 *Employee Benefits* – Settlements
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Deposits on returnable containers
- IFRIC agenda decisions
- Tentative agenda decisions
- IFRIC work in progress

Click [here](#) to view the January 2008 IFRIC Update. The IFRIC next meets on 6 – 7 March 2008.

15. International Auditing and Assurance Standards Board

The IAASB will meet in New York, USA from 10 – 14 March 2008. Click [here](#) for registration and the forthcoming background papers for the March 2008 meeting, and for the meeting summary of the December 2007 meeting held in Washington DC, USA.

16. International Ethics Standards Board for Accountants

The IESBA met in Amsterdam, Netherlands on 21 – 23 January 2008. Click [here](#) for the background papers and the forthcoming meeting summary. The IESBA next meets in New York, USA from 15 – 17 April 2008.

For Information

17. Companies Registry News

- (i) The Companies Registry has issued two new External Circulars
 - **No. 6/2007 “Warning Statements in Certificates Issued by the Companies Registry”** – a statement will be included in Certificates of Incorporation and Certificates of Change of Name for local companies, to remind companies, as well as third parties dealing with them, that the registration of a company name with the Companies Registry does not confer any intellectual property rights over the company name.

- **No. 7/2007 “Submission of Notifications of Company Details with Incorporation Documents”** – in order to streamline registration,

company promoters and presentors are encouraged to file specified forms containing the details of new companies (e.g., situation of registered offices, particulars of first director) at the same time as the relevant incorporation documents are lodged with the Companies Registry.

- (ii) Faster issuance of Certificates of Incorporation

The target standard set for incorporation of local companies, currently six working days (including the date of submission of incorporation documents), will be enhanced. Starting from 2 January 2008, the target for issuing Certificates of Incorporation of companies limited by shares will be four working days after the date of receipt of the incorporation documents by the Registry.

- (iii) Record increase in number of companies registered in 2007

According to the annual statistics released by the Companies Registry, the number of

companies registered under the Companies Ordinance increased significantly in 2007 compared with 2006. Notably, the number of new local companies registered in 2007 increased from 81,974 in 2006 to a record high of 100,761, an increase of 22.92%. Further details are contained in the Companies Registry's [press release](#).

18. 2008 Digital 21 Strategy

The Digital 21 Strategy ("the Strategy") is the government's blueprint for the development of information and communications technology ("ICT") in Hong Kong. The **2008 edition** of the Strategy is now available. The government has identified the following five key action areas for implementation between 2008 and 2010, to lay the foundation for ICT-enabled development in Hong Kong in the next decade:

- (i) Facilitating a digital economy
- (ii) Promoting advanced technology and innovation
- (iii) Developing Hong Kong as a hub for technological cooperation and trade
- (iv) Enabling the next generation of public services
- (v) Building an inclusive, knowledge-based society.

Members may share their thoughts on the Strategy with the Secretary for Commerce and Economic Development, Mr. Frederick Ma, through [Fred Ma's Blog on Digital 21 Strategy](#).

19. New Publications

New books available at the Institute's library (all are published in 2007):

- *Implementing GAAS, 2007/2008: A Practical Guide to Auditing and Reporting.* Peter Chidgey, Sarah Nendick. Publisher, Surrey: Wolters Kluwer (UK) Ltd.
- *Business Law in Hong Kong.* General editor, D.K. Srivastava. Publisher, HK: Sweet & Maxwell Asia.
- *Butterworths Hong Kong Bankruptcy Law Handbook: Bankruptcy Ordinance (Cap 6).* Annotator, Stephen SK Chan. Publishing manager, Sharon Kaur. Legal editor, Calvinne Luis. Publisher, HK: LexisNexis.
- *Hong Kong Tax Planning: Legal Tax Loopholes.* Debbie Annells. Publisher, HK: LexisNexis.
- *2007 Guide to China's Business Taxes.* Chris Devonshire-Ellis ... [et al.] Publisher, HK: China Briefing Media Ltd.
- *China Briefing's Small-Medium Enterprise China Business Bible.* Dezan Shira & Associates Limited. Edited by Andy Scott. Publisher, HK: China Briefing Media Ltd.
- *Doing Business in China: How to Profit in the World's Fastest Growing Market.* Ted Plafker. Publisher, New York: Warner Business Books
- *Setting Up Wholly Foreign Owned Enterprises in China.* Publisher, HK: China Briefing Media Ltd.
- *Setting Up Joint Ventures in China.* Chris Devonshire-Ellis ... [et al.]. Edited by Chris Devonshire-Ellis, Adam Livermore and Andy Scott. Publisher, HK: China Briefing Media Ltd.
- *Setting Up Representative Offices in China.* Publisher, HK: China Briefing Media Ltd.
- *中華人民共和國黨政軍組織架構: 中央/地方* Publisher, 香港: 香港文匯出版社
- *Excellence in Business Communication.* John V. Thill, Courtland L. Bovee. Publisher, Upper Saddle River, N.J.: Pearson/Prentice Hall
- *A Guide through International Financial Reporting Standards 2007.* Publisher, UK: IASCF Publications Department.
- *Auditing & Reporting 2007/2008.* General editor, David Chitty. Publisher, Surrey: Wolters Kluwer (UK) Ltd.

- Malaysia: ASEAN's Premier Market.
 Publisher, HK: Research Dept., Hong Kong
 Trade Development Council

Other publications

- The US Public Company Accounting Oversight Board has published a **Staff Audit Practice Alert** on fair value, giving auditors additional information on auditing fair value measurements and disclosures.
- Ernst & Young has released a **2007 Year-end IFRS Update**, and a paper on **Accounting for the credit crisis**.
- PricewaterhouseCoopers has published a new guidance on **IFRIC 13 Accounting for Customer Loyalty Programmes** to help clarify the impact of the interpretation.
- IFAC has issued a new **Guide to Using International Standards on Auditing in the Audit of SMEs**, and a paper **Tone at the Top and Audit Quality** to highlight international accounting firms' practices and examine how setting the right tone can positively influence audit quality.

Comment Due Dates

25 February 2008: IASB Exposure Drafts of

- Proposed Amendments to IFRS 2 *Share-based Payment*
- IFRIC 11 *IFRIC 2 Group and Treasury Share Transactions – Group Cash-settled Share-based Payment Transactions*

29 February 2008: Exposure Draft of revised Practice Note 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries*

15 March 2008: IAASB Exposure Drafts of

- ISA 501 (Redrafted) *Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures*
- ISA 520 (Redrafted) *Analytical Procedures*

31 March 2008: IAASB Exposure Drafts of

- ISA 210 (Redrafted) *Agreeing the Terms of Audit Engagements*
- ISA 710 (Redrafted) *Comparative Information – Corresponding Figures and Comparative Financial Statements*

31 March 2008: IFRIC Draft Interpretations of

- **D23 Distributions of Non-cash Assets to Owners**
- **D24 Customer Contributions**

15 April 2008: IAASB Exposure Drafts of

- ISA 265 *Communicating Deficiencies in Internal Control and Related Conforming Amendments to Other ISAs*
- ISA 402 (Revised and Redrafted) *Audit Considerations Relating to an Entity Using a Third Party Service Organization*

15 May 2008: IAASB Exposure Draft of proposed ISAE 3402 *Assurance Reports on Controls at a Third Party Service Organization*

Please send comments to
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