



# 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

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

- 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

### 2. Comparison between HKFRSs and IFRSs

The Institute has updated the **comparison table** between Hong Kong Financial Reporting Standards ("HKFRSs") and International Financial Reporting Standards ("IFRSs") up to 1 January 2008.

### 3. Subprime and credit crunch

In recent months financial market conditions have been characterised by significant volatility compounded by a liquidity crunch. Entities with exposure to the financial markets through debt, equity, derivative and leveraged finance activities may experience difficulty in trading in and thus valuing certain investments, with a consequential increase in the risk of material misstatement of financial statements.

The Institute has prepared a **technical Q&A** to enhance awareness of the requirements of the

financial reporting and auditing standards in relation to the determination of fair value of financial assets and financial liabilities and related disclosures in the context of current market conditions.

### 4. FRSC Meeting Summary – 9 January 2008

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
- Project on full compliance with IFRSs
- Updated comparison between HKFRSs and IFRSs

## Audit & Assurance

### 5. Institute Comments on IAASB Exposure Drafts

The Institute's submissions to the IAASB on the EDs of proposed ISA 505 (Revised and Redrafted) *External Confirmations* and ISA 620 (Revised and Redrafted) *Using the Work of an Auditor's Expert* indicate that it is supportive of the revisions and redrafting and that, generally, the objectives to be achieved by the auditor, as stated in the proposed revised and redrafted ISAs, are appropriate.

The Institute's comments include:

#### **ISA 505 (Revised and Redrafted) External Confirmations**

- Support the proposal that the proposed ISA should not mandate the use of external confirmations requests in any particular circumstances or in response to any particular risk of material misstatement.

- Support the proposal that the proposed ISA be directed at setting requirements that will improve auditor performance of external confirmation procedures when the auditor has determined that the use of external confirmations is an appropriate response to an assessed risk of material misstatement.
- Agree that the requirements in paragraph 14 and guidance in A26 appropriately limit the extent to which auditors may use negative confirmation requests as the only substantive audit procedure to address an assessed risk of material misstatement at the assertion level.
- Recommend that the application guidance on the use of positive confirmations, in paragraph 21 of the extant ISA 505, be re-stated in the proposed ISA.

#### **ISA 620 (Revised and Redrafted) Using the Work of an Auditor's Expert**

- Support the proposal that the proposed ISA deals exclusively with considerations relevant to using the work of an auditor's expert and that material dealing with the work of management's expert be expanded and moved to [proposed] ISA 500 (Redrafted) *Considering the Relevance and Reliability of Audit Evidence*.
- Agree with the proposed definition of "expert", which excludes persons or organisations possessing expertise in accounting or auditing. It is expected that an auditor accepting an engagement would possess the required accounting and auditing expertise.
- Support the distinction between the auditor's internal experts, who are members of the engagement team, and external experts.

#### **6. Revised Q&As on Audit of Financial Statements of Owners' Corporations of Buildings – Audit Issues**

As a result of the amendments to the Building Management (Amendment) Ordinance 2007 issued in May 2007, the Q&As on Audit of

Financial Statements of Owners' Corporations of Buildings – Audit Issues, which was issued in December 2006, have been revised to take into account the relevant changes.

The changes affecting the audit of financial statements of owners' corporations of buildings mainly relate to the change in section 27(1AA) of the Building Management Ordinance ("BMO") and the corresponding changes to Schedule 5 and Schedule 6 to BMO. Section 27(1AA) now explicitly requires the financial statements to give a true and fair view of the financial transactions and on the financial position of the corporation. There is no change in the opinion on the financial statements except for certain editorial changes.

The **revised Q&As on Audit of Financial Statements of Owners' Corporations of Buildings – Audit Issues** should be read in the light of applicable Hong Kong Standards on Auditing.

#### **7. AASC Meeting Summary – 18 December 2007**

This **AASC meeting summary** covers:

- Draft submission to the IAASB EDs on 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*
- Types of Reporting Project – Progress Report
- HKICPA/SFC Joint Seminar on Update of Practice Note 820 *The Audit of Licensed Corporations and Associated Entities*
- Circular on Reporting on General Charitable Fund-raising Activities Covered by Public Subscriptions Permits issued by the Social Welfare Department (Other than Flag Days)
- Audit of Accounts of Owners' Corporations of Buildings – Audit Issues

## Insolvency & Corporate Restructuring

### 8. Court Dismisses Appeal of Trustee in Bankruptcy

The judgments in the case of Fred Lee, trustee of the property of Leung Chin Yeung, a bankrupt ([HCB 8779/2002](#)), and the appeal therefrom, in [CACV 30 to 32 of 2007](#), provide guidance on the application of section 30A(9) of the Bankruptcy Ordinance (Cap. 6).

The issue concerned whether the court has jurisdiction, under section 30A(9) of the Bankruptcy Ordinance (Cap. 6), to order that a bankrupt be discharged from bankruptcy subject to conditions. The trustee in bankruptcy had initially objected to the automatic discharge of the bankrupt and later sought to withdraw his objection by a consent application, upon agreeing terms with the bankrupt to continue to make contributions to his estate and pay the trustee's costs in the application.

### 9. Recent Legal Developments in Unfair Preference Claims

In relation to sections 266 - 266B of the Companies Ordinance (Cap. 32), the High Court judgment re Sweetmart Garment Works Limited (in liquidation) ([HCCW 755/2005](#)) upheld an unfair preference claim by the liquidators against a bank creditor (being a "non associate").

The issue for determination in this case was whether or not the company was influenced by the desire to put the bank creditor in a better position than it would have been had a mortgage over a pleasure craft not been granted. The High Court determined that indirect evidence could be relied upon to infer that the company was influenced by a desire to prefer the bank in granting the mortgage in question.

### 10. INSOL International Fellowship Programme

[INSOL International](#) has launched a new Global Insolvency Practice Course. This is a postgraduate educational qualification focusing on the concept of insolvency and the ways in which the problems of companies in financial difficulties can be addressed and insolvency can

be prevented. It will offer theoretical and practical knowledge of the current sources of, and the developments within, international / cross-border aspects of insolvency. Students successfully completing the qualification will gain a [Fellowship from INSOL International](#).

The Global Insolvency Practice Course starts with enrolment in February 2008. Further details are contained in the [brochure](#).

## Taxation

### 11. The Financial Secretary Delivers Budget Speech 2008/09

On 27 February 2008, the Financial Secretary ("FS"), Mr. John Tsang, delivered his maiden Budget Speech. Members may refer to the [2008/09 Budget Highlights](#) for a quick summary.

In terms of the overall fiscal position, the budget figures revealed buoyant performance of Hong Kong's economy in 2007/08. Government revenues greatly exceeded expectations, due to significantly higher than expected income from stamp duty on stock and property market transactions, land premiums and profits and salaries taxes. The FS expects a record high surplus of HK\$115.6 billion for 2007/08, compared with a forecast of HK\$25.4 billion at the time of last year's budget. The positive outturn for 2007/08 enabled the FS to provide a range of concessions from which most sectors of the community will benefit.

A consolidated deficit of HK\$7.5 billion is forecast for 2008/09, due largely to the major one-off and other revenue concessions contained in the budget, which will take effect during the next fiscal year. The fiscal reserves are expected to stand at HK\$484.9 billion by 31 March 2008 and to be maintained in the range of HK\$470 billion and HK\$720 billion over the next five years, equivalent to between 18 and 25 months of government expenditure.

Real GDP growth in 2007 was 6.3%, compared with the original forecast of 4% - 5%. Although expected to slow in 2008, due to external economic factors, GDP growth this year is still forecast to be in the range 4% to 5%, and the

annual trend growth rate over the period 2009 to 2012 is projected to be 4.5% in real terms.

The inflation rate, as measured by the Composite Consumer Price Index, was 2% in 2007, which is slightly higher than the 1.5% forecast in the 2007/08 budget. The underlying inflation rate is expected to increase further, to 4.5%, in 2008, although the various one-off measures proposed in the budget are expected to bring this down to 3.4%.

In view of the very healthy fiscal situation, in the 2008/09 budget, the FS announced a series of specific tax and other benefits costing over HK\$42 billion. Most of these are one-off measures and they include:

Concessions	Cost to government (HK\$m)
Restore standard rate of salaries tax and personal assessment to 2002/03 levels (i.e., 15%)	960
Return basic personal and single parent, and also the married person's, allowances to 2002/03 levels (i.e., HK\$108,000 and HK\$216,000, respectively)	1,310
Widen tax bands from HK\$35,000 to HK\$40,000	1,000
Lower profits tax rate from 17.5% to 16.5%	4,400
Rebate 75% of tax payable on the final 2007/08 assessment (with a ceiling of HK\$25,000 in each case) for:	
- salaries tax and tax under personal assessment	12,400
- profits tax	1,730
- property tax	680
Waiver of business registration fee for 2008/09	1,600
Waiver of rates for 2008/09 (ceiling of \$5,000 per quarter for each rateable tenement)	11,200
One additional month of standard rate payments for CSSA recipients and allowance for recipients of Disability Allowance	1,200
One-off grant of \$3000 for recipients of Old Age Allowance	1,500
Subsidy of HK\$1,800 for each domestic electricity account	4,300

In addition to the above measures, the FS increased the ceiling on taxable donations from 25% to 35% of assessable profits or income. Funds were earmarked to provide for the future, including for a \$6,000 injection into the MPF

accounts of employees and self-employed persons earning not more than \$10,000 per month (at a cost of \$8.5 billion) and HK\$50 billion fund to assist the implementation of health care reform.

The Institute's Taxation Committee chair, Mr. David Southwood, deputy chair, Ms. Ayesha Macpherson, and past president and chair of the Current Issues Task Force, Mr. Paul Chan, hosted a **media briefing** in the afternoon following the FS's budget speech. While they welcomed many of the concessions, they also pointed to various measures recommended in the Institute's **budget proposals**, including measures to enhance Hong Kong's competitive position, which they would like to have seen in the budget.

## 12. Hong Kong Tax Cases Volume 7 Published

Hong Kong Tax Cases Volume 7 has been published and is now available for sale and can be purchased by:

- Calling the Publications Sales Section of Information Services Department ("ISD") at telephone number 2537 1910
- Visiting the **online Government Bookstore**
- Downloading the order form from the **ISD website**
- Placing order with ISD by e-mail < [puborder@isd.gov.hk](mailto:puborder@isd.gov.hk) >

This volume covers eight cases, namely CACV 8/2006, HCAL 114/2005, CACV 83/2006, CACV 97/2006, HCIA 3/2006, FACV 11/2006, FACV 15/2006 and CACC 262/2007, totaling 419 pages.

## Legislation & Other Initiatives

### 13. Anti-money Laundering/Combating 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. 16 – UNS \(Cote d’Ivoire\) Regulation 2008](#)
- [L.N. 17 – UNS \(Democratic Republic of the Congo\) Regulation 2008](#)

The Government Notice [G.N. 282 – United Nations \(Anti-Terrorism Measures\) Ordinance \(Cap. 575\)](#), published in the gazette, provides an updated list of names of the persons designated by the Committee of the USN Council as terrorists or terrorist associates.

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. 615 – UNS \(Democratic Republic of the Congo\) Regulation 2008](#)
- [G.N. 616 – UNS \(Cote d’Ivoire\) Regulation 2008](#)

For more background information of the current law in Hong Kong relating to anti-money laundering, see the Institute’s [Legal Bulletin 1](#), “Requirements on Anti-money Laundering, Anti-terrorist Financing and Related Matters”.

### International Meetings

#### 14. International Accounting Standards Board

The IASB met in London on 18 – 22 February 2008, discussed the following topics:

- Annual improvements
- IAS 19 *Employee Benefits*
- Conceptual framework
- Liabilities: amendments to IAS 37
- Liabilities and equity
- Insurance contracts

Click [here](#) to view the February 2008 IASB Update. The IASB next meets on 10 – 14 March 2008.

#### 15. International Financial Reporting Interpretations Committee

The IFRIC will meet in London on 6 – 7 March 2008. Click [here](#) for the meeting papers. Further details about the meeting will be reported in the next issue of TechWatch.

#### 16. International Auditing and Assurance Standards Board

The IAASB will meet in New York, USA, from 10 – 14 March 2008. Click [here](#) for the background papers.

#### 17. International Ethics Standards Board for Accountants

The IESBA will meet in New York, USA, from 15 – 17 April 2008. Click [here](#) for registration for the April 2008 meeting and for the forthcoming meeting summary of the January 2008 meeting in Amsterdam, Netherlands.

### For Information

#### 18. New Publications

- The current volatile market conditions have prompted the [Auditing Practices Board](#) of the UK Financial Reporting Council and the [Global Public Policy Committee](#) of the six largest international accounting networks to issue respective guidance for auditors.
- PricewaterhouseCoopers has published FAQs on the application of [HKFRS 7 Financial Instruments: Disclosures](#)

### Comment Due Dates

#### 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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