



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 No. 49, 50 and 51

- **Update No. 49** encloses revisions to PN 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries*, HKSRE 2400 *Engagements to Review Financial Statements* and 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 No. 50** encloses new *Glossary of Terms to Hong Kong Financial Reporting Standards*.
- **Update No. 51** encloses amendments to HKFRS 2 *Share-based Payment*, revised HKFRS 3 *Business Combinations* and HKAS 27 *Consolidated and Separate Financial Statements*. Consequential amendments to other standards and interpretations are also enclosed. Further details are set out in the "Financial Reporting" section below.

2. Technical Update Evening (TUE) Programme

The **TUE programme** for April 2008 covers:

- 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
- 805A (Re-run) (29 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. Amendments to HKFRS 2 *Share-based Payment* (Handbook Update No. 51)

Amendments to HKFRS 2 shall be applied retrospectively in annual periods beginning on or after 1 January 2009, the same effective date as amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellation*. Earlier application is permitted.

The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based arrangement, as follows:

- (a) Vesting conditions are service conditions (which require the counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. Other features of a share-based payment are not vesting conditions. All non-vesting conditions and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted.
- (b) All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The cancellation is accounted for as an acceleration of the vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. Any payment made to the employee on cancellation shall be accounted for as repurchase of an equity interest (i.e., deduction from equity), with excess over fair value of equity instruments granted recognised as an expense. If the share-based arrangement includes liability components, the liability should be fair valued at the date of cancellation and any payment made to settle the liability shall be accounted for as an extinguishment of the liability.

4. HKFRS 3 (Revised) *Business Combinations* (Handbook Update No. 51)

HKFRS 3 (Revised) supersedes the extant HKFRS 3 (issued in 2004, as amended in 2005 and 2007). It shall be applied prospectively and is effective for annual periods beginning on or after 1 July 2009, the same effective date as IFRS 3 *Business Combinations*. Earlier application is permitted for annual periods beginning on or after 30 June 2007 provided that HKAS 27 is applied at the same time.

The main revisions are:

- (a) The scope is broadened to cover business combinations involving only mutual entities and business combinations achieved by contract alone.
- (b) The definitions of a *business* and a *business combination* are amended and additional guidance is added for identifying when a group of assets constitutes a business.
- (c) For each business combination, an acquirer must measure any non-controlling interest in an acquiree either at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Previously, only the latter was permitted.
- (d) The requirements for how an acquirer makes any classifications, designations or assessments for the identifiable assets acquired and liabilities assumed in a business combination are clarified.
- (e) The period during which changes to deferred tax benefits acquired in a business combination can be adjusted against goodwill has been limited to the measurement period (through a consequential amendment to HKAS 12 *Income Taxes*).
- (f) An acquirer is no longer permitted to recognise contingencies acquired in a business combination that do not meet the definition of a liability.
- (g) Costs that an acquirer incurs in connection with business combination must be accounted for separately from the business combination, which usually means that they are recognised as expenses (rather than included in goodwill).
- (h) Consideration transferred by an acquirer, including contingent consideration, must be measured and recognised at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as liabilities are recognised in accordance with HKAS 39, HKAS 37 or other HKFRSs, as appropriate (rather than by adjusting goodwill). The disclosures required to be made in relation to contingent consideration are enhanced.
- (i) Application guidance is added in relation to when an acquirer is obliged to replace an acquiree's share-based payment awards; measuring indemnification assets; rights sold previously that are reacquired in a business combination; operating leases; and valuation allowances related to financial assets such as receivables and loans.
- (j) For business combinations achieved in stages, having the acquisition date as the single measurement date is extended to include the measurement of goodwill. An acquirer must remeasure any equity interest it holds in the acquiree immediately before achieving control at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.

5. HKAS 27 (Revised) *Consolidated and Separate Financial Statements* (Handbook Update No. 51)

HKAS 27 (Revised) supersedes the extant HKAS 27 (issued in 2004, as amended in 2005 and 2007). It shall be applied retrospectively with certain exceptions and is effective for annual periods beginning on or after 1 July 2009, the same effective date as IAS 27 *Consolidated and Separate Financial Statements*. Earlier application is permitted provided that HKFRS 3 is applied at the same time.

The main revisions are:

- (a) The term *minority interest* is replaced by the term *non-controlling interest*, with a new definition.
- (b) An entity must attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The previous version required excess losses to be allocated to the owners of the parent, except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.
- (c) Requirements are added to specify that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. The previous version did not have requirements for such transactions.
- (d) Requirements are added to specify how an entity measures any gain or loss arising from the loss of control of a subsidiary. Any such gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The previous version required the carrying amount of an investment retained in the former subsidiary to be regarded as its cost on initial measurement of the financial asset in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*.

6. Institute Comments on IASB ED of Proposed Amendments to IFRS 1 and IAS 27

The ED of Proposed Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* was developed in response to comments received on a related exposure draft published in January 2007. It addresses concern that retrospectively determining cost in

accordance with IAS 27 on first-time adoption of IFRSs cannot, in some circumstances, be achieved without undue cost or effort. On the basis of respondents' comments, the ED proposes to allow entities, in their separate financial statements, to use either the fair value or the carrying amount of the investment in the subsidiary under previous national GAAP as deemed cost. It also extends the deemed cost exemption to the initial measurement of investments in associates and interests in joint ventures.

The ED also proposes to delete the definition of "cost method" from IAS 27 and require a new parent to measure cost using the carrying amounts of the existing entity at the date when the new parent is formed.

The Institute's [submission](#) to the IASB indicates that it is generally supportive of the IASB's proposals. However, the Institute has concerns that the proposed requirement to test the related investments for impairment in every case of a dividend being received from a subsidiary, jointly controlled entity or an associate accounted for at cost in separate financial statements is excessive.

In addition, for the measurement of the cost of a new parent, the Institute recommends that the IASB should consider other measurement bases, other than the proposed carrying amount of assets and liabilities of an existing entity, for entities under common control.

Audit & Assurance

7. New Technical Bulletin on Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting

[Technical Bulletin](#) on *Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting* (AATB 1) is intended to provide information on the current practices in Hong Kong for providing assistance to new applicants and sponsors in connection with the new applicants' internal controls over financial reporting.

8. Revised PN 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries* (Handbook Update No. 49)

PN 820 has been revised in the following aspects:

- Updated Part II to reflect the new Hong Kong Standards on Auditing replacing Statements of Auditing Standards (“SASs”).
- Restructured Part III to separate guidance regarding management and auditor’s responsibilities for greater clarity.
- Updated example auditor’s report in line with HKSA 700 *The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements*, details of which were also available in the HKICPA circular dated 19 January 2007.
- Deletion of certain references to Auditing Standards in Part II of the extant PN 820, where it was considered that the extant guidance was merely generic guidance applicable to all audits, e.g., SAS 420 *Auditing of accounting estimates*, SAS 500A *Considering the work of internal auditing*, SAS 520 *Using the work of an expert*.
- Deletion of examples 1A and 2A of Appendix 1 relating to straddle reports, which are no longer applicable.

In addition to the above, there are some detailed improvement changes developed in consultation with the Securities and Futures Commission, which include paragraphs 33, 45, 49, 55, 64, 68 and 122, and the following guidance:

- Guidance on deposit or registration of client securities and securities collateral (Appendix 2 – paragraph 18(l)).
- Guidance on the new requirement of repledging limit (Appendix 2 – paragraphs 19(e), 20(e) and 21(h)).
- Additional guidance on performance of a circularisation of clients’ account balances (Appendix 2 – paragraphs 27(b), 27(c), 27(h) and 27(i)).

9. Revised HKSRE 2400 and HKSRE 2410 (Handbook Update No. 49)

- (i) HKSRE 2400 *Engagements to Review Financial Statements*

Paragraph 2 has been revised to provide further clarification that HKSRE 2400 is directed towards the review of financial statements by a practitioner, who is not the auditor of an entity. However, it is to be applied, adapted as necessary in the circumstances, to engagements to review other historical financial information. Early adoption is permissible.

- (ii) HKSRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

The scope of this HKSRE is directed towards a review of interim financial information performed by the independent auditor of the financial statements of the entity. However, as a result of the amendments (paragraph 3a), it is to be applied, adapted as necessary in the circumstances, when an entity’s auditor undertakes an engagement to review historical financial information other than interim financial information of an audit client. Early adoption is permissible.

10. AASC Meeting Summary – 26 February 2008

This [AASC meeting summary](#) covers:

- ED on Discussion Paper *Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting*
- Meeting schedule for 2008
- Proposed Work Plan for 2008
- Adoption of New IAASB Pronouncements
- Circular on Audit of Financial Statements of Owners’ Corporations of Building – Audit Issues

- ED on PN 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries*
- Referral from FRSC on issuance of audit report on compliance with HKFRSs and IFRSs
- Referral from The Law Society of Hong Kong on proposed amendments to the Accountant's Report Rules

Insolvency & Corporate Restructuring

11. ORO Invites Tenders for Taking Up of Appointment to Complete Preliminary Examination in Bankruptcy Cases

The Official Receiver's Office ("ORO") has issued a tender notice to invite interested parties to submit tenders for taking up of appointment to complete preliminary examination in bankruptcy cases. The contract period will last for 22 months from July 2008. The deadline for submission is 24 April 2008 at 12:00 noon.

The tender form and 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](#).

Taxation

12. IRD Rolls Out New E-Tax Services

The electronic filing of tax returns is likely to become increasingly prevalent in the future and potential new services in the pipeline were touched on in a [Taxation Interest Group](#) seminar held in December 2007, which compared electronic filing in Hong Kong, the United Kingdom and the United States. Following on from this, the IRD has recently introduced a new taxpayer portal for [online tax services](#), which include salaries tax, profits tax for sole proprietorship businesses, personal assessment, property tax for solely- and jointly-owned properties, stamp duty and business registration. To gain access to these online services, members should open an eTAX Account by logging on at [eTAX](#).

Legislation & Other Initiatives

13. Anti-money Laundering/Combating Terrorism Financing Notices

Government Notice [G.N. 1158](#) – 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 United Nations Security Council as terrorists or terrorist associates.

Members may also wish to note the following:

- (i) United States 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 headings, "Name of individual designated on 02-28-08".
- (ii) [Financial Action Task Force on Money Laundering](#) ("FATF") in its [statement](#) of 28 February 2008 draws the attention of its members (Hong Kong has been a member since 1990) to take into account the risks in transactions involving Uzbekistan, Iran and northern part of Cyprus, in conducting due diligence, due to the deficiencies in their anti-money laundering/combating the financing of terrorism ("AML/CFT") regimes. The statement similarly highlights deficiencies in the AML/CFT regimes in Pakistan, Turkmenistan, Sao Tome and Principe.

14. Healthcare Reform Consultation Document Issued

On 13 March 2008, the government launched a [consultation](#) on healthcare reform. The consultation will last for three months, ending on 13 June 2008.

The Institute's newly formed Current Issues Task Force will be studying the proposals and will be organising a discussion forum, details of which will be announced shortly.

Members who wish to express their views on the consultation document, in particular the supplementary financing options, or to suggest issues to be raised at the forum, can direct their views or suggestions to:

<commentletters@hkcipa.org.hk>.

15. Amendments to Mandatory Provident Fund Schemes Ordinance

The Legislative Council passed the Mandatory Provident Fund Schemes (Amendment) Bill 2007 at its third reading on 9 January 2008. The Bill covers a number of amendments to the Mandatory Provident Fund Schemes Ordinance.

Following on from this, the MPF Schemes Authority ("MPFA") has recently produced a flyer entitled, "Amendments Relating to Mandatory Provident Fund Schemes Ordinance", setting out the major amendments to the MPF legislation that have more direct impact on employers and scheme members, including employees and self-employed persons. Two other flyers focusing on the MPF legislative amendments, namely, "Amendments Relating to Removal of the 30-day Settlement Period" and "Amendments Relating to Removing the Special Treatment on Excluding Housing Allowance and Other Housing Benefit from Relevant Income" have also been produced. For details, please visit the [MPFA's website](#).

Professional Accountants in Business

16. IFAC Invites Responses to Survey on Performance Measurement in the Public Sector

The International Federation of Accountants ("IFAC") is inviting professional accountants and others working in the public sector to complete an [online survey](#). The survey is designed to obtain information about the financial and non-financial performance measurement and reporting processes in public sector entities. The survey is part of a project to help professional accountants in business and others in evaluating and improving performance measurement systems. The results will also assist IFAC's Professional Accountants in Business Committee in considering specific

public sector aspects when developing its principles-based guidance.

As indicated by IFAC, the survey takes approximately 10-15 minutes to complete. Please respond by **30 April 2008**.

International Meetings

17. International Accounting Standards Board

The IASB met in London on 10 – 14 March 2008, discussed the following topics:

- Annual improvements
- Financial statement presentation
- Fair value measurement
- IFRS for small and medium-sized entities
- IAS 19 *Employee Benefits*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- Update on IFRIC activities
- First-time adoption of IFRSs
- Extractive activities research project

Click [here](#) to view the March 2008 IASB Update. The IASB next meets on 14 – 18 April 2008.

18. International Financial Reporting Interpretations Committee

The IFRIC met in London on 6 March 2008, discussed the following topics:

- IFRIC D21 *Real Estate Sales*
- IFRIC D22 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC agenda decisions
- Tentative agenda decisions
- IFRIC work in progress

Click [here](#) to view the March 2008 IFRIC Update. The IFRIC next meets on 8 – 9 May 2008.

19. International Auditing and Assurance Standards Board

The IAASB will meet in Athens, Greece, from 16 – 20 June 2008. Click [here](#) for registration for the June meeting and for the background papers, audio recording and the forthcoming meeting summary of the March 2008 meeting in New York.

20. International Ethics Standards Board for Accountants

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

For Information

21. New Publications

New books available at the Institute's library:

- Financial Reporting in Hong Kong. Hong Kong editors, Stephen Taylor, Alison White. Principal authors, Phil Barden [et al.]. Major contributors, Roger Best [et al.]. Publisher, HK: CCH Hong Kong Ltd.
- Accounting for Governmental and Nonprofit Entities. Earl R Wilson, Susan C Kattelus, Jacqueline L Reck. Publisher, Boston: McGraw-Hill/Irwin.
- Hong Kong Auditing: Economic Theory and Practice. Ferdinand A Gul. Publisher, HK: City University of HK Press.
- Auditing After Sarbanes-Oxley: Illustrative Cases. Jay C Thibodeau, Deborah Freier. Publisher, Boston: McGraw-Hill/Irwin.
- Management Accounting: Risk and Control Strategy. Paul M Collier, Sam Agyei-Ampomah. Publisher, Oxford: CIMA Publishing.
- The Essential of Risk Management. Michel Crouhy, Dan Galai, Robert Mark. Publisher, New York: The McGraw-Hill Companies.
- The CFO: How Financial Managers Can Transform Their Roles and Add Greater Value. Jeremy Hope. Publisher, Boston: Harvard Business School Press.
- Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant. W Chan Kim, Renée Mauborgne. Publisher, Boston: Harvard Business School Press.
- The Art of M & A Integration: A Guide to Merging Resources, Processes, and Responsibilities. Alexandra Reed Lajoux. Publisher, New York: McGraw-Hill.
- Mergers & Acquisitions from A to Z. Andrew J Sherman and Milledge A Hart. Publisher, New York: AMACOM.
- Core Principles & Applications of Corporate Finance. Stephen A Ross ... [et al.] Publisher, Boston: McGraw-Hill/Irwin.
- Financial Markets in Hong Kong: Law and Practice. Berry Fong-Chung Hsu ... [et al.]. Consulting editors, Laurence Lu-Jen Li, Paul Lejot. Publisher, New York: Oxford University Press.
- 公司條例 (第32章) Companies Ordinance (Chapter 32). Publisher, 香港: 政府物流服務署.
- Hong Kong Corporate Law. Paul Kwan. Publisher, HK: LexisNexis.
- Cases and Materials in Company Law. Len Sealy, Sarah Worthington. Publisher, New York: Oxford University Press.
- Hong Kong Taxation: Law and Practice. David G Smith and Ayesha Macpherson. Publisher, HK: Chinese University Press.
- Hong Kong's Export Outlook for 2008: Maintaining Competitiveness Through Supply Chain Management (2008年香港出口展望 : 加強供應鏈管理, 積極保持競爭力). Research Department, Hong Kong Trade Development Council ("HKTDC"). Publisher, HK: HKTDC.

- Mainland / Taiwan Technological Cooperation: Hong Kong the Services Platform (海峽兩岸科技合作：香港服務平台). Research Department, HKTDC. Publisher, HK: HKTDC.
- 進軍中國市場：貿發局首選30城市。香港貿易發展局研究部。Publisher, 香港：香港貿易發展局。

Other publications:

- The **IASB's 2008 IFRS bound volume** is now available at a discounted price of HK\$900.
- The **IAASB annual report 2007**.
- IFAC's **2008 Handbook of International Auditing, Assurance, and Ethics Pronouncements**.
- PwC publication about the **hurdles of complying with both HKFRS and IFRS**.
- Deloitte **new guidance** on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Comment Due Dates

15 April 2008: **IAASB Exposure Drafts** of proposed ISA 265 *Communicating Deficiencies in Internal Control and Related Conforming Amendments to Other ISAs* and 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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