



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.

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TechWatch is prepared by the Hong Kong Institute of CPAs and is intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Institute endeavours to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted by the Institute.

Editors: Mary Lam and Steve Ong

Other contributors:

*Selene Ho, Florence Wong, Winnie Chan and Ben Lo (Standard Setting Department)
Peter Tisman and Elena Chai (Specialist Practices Department)*

Spotlight

1. Handbook Update No. 52

Update No. 52 encloses amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation, as well as consequential amendments to other standards and interpretations. Further details are set out in the “Financial Reporting” section below.

Financial Reporting

2. Amendments to HKAS 32 and HKAS 1 (Handbook Update No. 52)

Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation are effective for annual periods beginning on or after 1 January 2009. Earlier application is permitted provided that the related amendments to HKAS 39 *Financial Instruments: Recognition and Measurement*, HKFRS 7 *Financial Instruments: Disclosures* and HK(IFRIC) – Int 2 *Members' Shares in Co-operative Entities and Similar Instruments* are applied at the same time. The amendments shall be applied retrospectively.

The IASB amended IAS 32 *Financial Instruments: Presentation* with respect to the classification of puttable financial instruments and obligations arising only on liquidation, with an objective of providing a short-term, limited scope amendment to improve financial reporting of particular types of financial instruments that meet the definition of a financial liability but represent the residual interest in the net assets of the entity.

Under the current requirements of IAS 32, if an issuer can be required to pay cash or another financial asset in return for redeeming or repurchasing a financial instrument, the

instrument is classified as a financial liability. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability, subject to specified criteria, will be classified as equity because they represent the residual interest in the net assets of the entity. The amendments have detailed criteria for identifying such instruments.

The IASB also amended IAS 1 *Presentation of Financial Statements* to add new disclosure requirements relating to puttable financial instruments and obligations arising on liquidation.

Staff Summary of Financial Reporting Standards prepared by the Standard Setting Department provides more details on the amendments.

Audit & Assurance

3. Institute Comments on IAASB Exposure Draft of Proposed ISAE 3402

The Institute made a **submission** to the IAASB on the Exposure Draft of proposed ISAE 3402 *Assurance Reports on Controls at a Third Party Service Organisation*. The submission indicates that the Institute is supportive of the proposed ISAE and that generally, the objectives to be achieved by the service auditor, as stated in proposed ISAE, are appropriate.

The proposed ISAE is the first subject matter – specific standard developed under the IAASB's framework. It complements proposed ISA 402 (Revised and Redrafted) *Audit Considerations Relating to an Entity Using a Third Party Service Organisation* in that reports prepared in accordance with proposed ISAE 3402 will be capable of providing appropriate audit evidence under the proposed ISA 402. It will help to bring consistency in reporting on controls at service organisations, thereby assisting such organisations to meet the needs of clients ("user entities") and their auditors. In particular, it ensures that reports issued in one country are likely to meet the requirements of the auditors of user entities in other countries.

Ethics

4. Invitation to Comment on IESBA Re-Exposure Draft of Internal Audit Services and Relative Size of Fees

The Institute has issued an [Invitation to Comment](#) on IFAC's International Ethics Standards Board for Accountants ("IESBA") Re-Exposure Draft of Section 290 of the Code of Ethics for Professional Accountants, with comments requested by **1 August 2008**.

In summary, the two key proposals re-exposed for comments are:

- (i) Provision of internal audit services to a public interest audit client

The first proposal would prohibit independent auditors from providing internal audit services related to internal controls, financial systems or financial statements to an audit client that is a public interest entity.

- (ii) Safeguards that are required when the fees from a public interest audit client exceeds 15% of the total fees of the firm

The second proposal requires that an annual pre-issuance or post-issuance review be conducted by a professional accountant, who is not a member of the firm, when the revenues from one public interest entity client exceed 15% of the total revenue of the firm for two consecutive years.

The re-exposure draft relates to matters that were exposed for comment in a previous exposure draft issued in July 2007, on which the Institute [had commented](#).

Taxation

5. Update on Mainland China and Hong Kong SAR Double Taxation Arrangement

The [Second Protocol](#) to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the

Prevention of Fiscal Evasion with respect to Taxes on Income ("the second protocol") came into effect on 11 June 2008.

On 12 June 2008, the Commissioner of Inland Revenue, Mrs. Alice Lau, [spoke](#) to the Institute's Taxation Interest Group on the practical significance of the second protocol, covering issues such as:

- Change from the "6-month rule" to "183-day rule" for permanent establishments
- Specification of reference periods in respect of capital gains for the alienation of shares
- Transitional arrangements

Professional Accountants in Business

6. New IFAC Publications for Professional Accountants in Business

- (i) Guidance Supports PAIBs in Promoting Better Investment Decisions

The Professional Accountants in Business Committee ("PAIBC") of IFAC has issued a new International Good Practice Guidance ("IGPG"), [Project Appraisal Using Discounted Cash Flow](#), to provide guidance on the use of discounted cash flow analysis and net present value in evaluating investments. This IGPG helps PAIBs to promote better investment decisions and the importance of generating long-term value in their organisations.

This guidance is part of the IFAC PAIBC's new programme to promote international good practice in financial and management accounting.

- (ii) Roles of PAIBs in Mid-sized Enterprises

Recognising that PAIBs play an important role in mid-sized enterprises, the IFAC PAIBC has released a new publication entitled, [The Crucial Roles of Professional Accountants in Business in Mid-Sized Enterprises](#).

This document features interviews with ten senior-level PAIBs on their experiences in mid-sized enterprises. The purpose of these interviews is to better understand the unique challenges that mid-sized enterprises confront and how PAIBs help address these challenges.

7. IFAC PAIBC Invites Comments on Draft Guidance

IFAC's PAIBC is seeking comments on the following two new proposed International Good Practice Guidance by **23 September 2008**.

(i) *Evaluating and Improving Governance in Organisations*

This proposed guidance is intended to assist PAIBs and their organisations in creating a balance between conformance with rules and regulations and organisational performance. It sets out a framework, a series of fundamental principles, practical guidance and references on how to evaluate and improve governance in organisations.

(ii) *Costing to Drive Organisational Performance*

This proposed guidance is designed to assist PAIBs in delivering useful cost information to support effective decision-making and organisational performance. It sets out eight fundamental principles of costing that encourage a performance-based view of costing to help PAIBs ensure that costing information supports forward-looking strategic and operational decisions.

The above draft guidance will be reviewed by the Institute's PAIBC. Members will be kept informed of developments through future issues of TechWatch.

Legislation & Other Initiatives

8. Healthcare Reform Consultation

As reported in TechWatch Nos. [66](#) and [67](#), the government's consultation document on healthcare reform was referred to the Institute's

Current Issues Task Force ("CITF") for consideration. The Institute also organised a members' forum, in April 2008, to help members understand the issues, in particular the various supplementary financing options.

The CITF subsequently prepared a submission to the Food and Health Bureau. In its **submission**, the Institute expressed support for the initiative by the government to review the healthcare system in Hong Kong. The submission also looked at, and commented on, some of the broad principles underlying the consultation proposals.

It was also pointed out that there were areas worthy of attention that had not been discussed in detail in consultation document, such as:

- The importance of health education, which should be given sufficient priority to help reduce the avoidable burden on our health services.
- Tax incentives could be used, to some extent, to encourage taxpayers to invest more in providing for their own health cover, whether in the form of deductions for insurance premiums or for contributions into saving schemes for healthcare funding.
- More should be said about governance mechanisms to ensure adequate oversight of the public sector - private sector partnership and the health insurance sector, whilst avoiding unnecessary bureaucracy.

Noting that the best solution to supplementary healthcare funding could be a combination of different options, the Institute looked forward to seeing more detailed proposals on a narrower range of possible options in the second stage of consultation and also clear performance targets for enhancement of services. The first stage of the healthcare reform consultation ended on 13 June 2008.

9. Anti-money Laundering / Combating Terrorism Financing Notices

Members may wish to note that the following updated lists have been published in the government gazette or other publications:

- **Government notice 3306:** Terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **US Executive Order 13224:** Adds names of individuals and entities to the list relating to "Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit or Support Terrorism".

For more background information on 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".

10. Third Public Consultation on Companies Ordinance Rewrite

The government **released a consultation paper** on 26 June 2008, covering legislative proposals in relation to share capital, the capital maintenance regime and statutory amalgamation procedure. This is the third in a series of public consultations on the Companies Ordinance rewrite project.

Briefly, the consultation paper encompasses the following proposals:

Share Capital

The government proposes to introduce a mandatory no-par value share regime for all companies (i.e. shares will no longer have par or nominal value) and provide a period of 12 months for companies to review their arrangements before migration to no-par.

Capital Maintenance Regime

The government does not recommend adopting an across-the-board solvency test approach to all forms of distribution. Nevertheless, views are invited on whether the existing capital maintenance rules concerning reduction of capital, purchase by a company of its own shares and financial assistance by a company to another party for the acquisition of its own shares should be streamlined or modified.

Statutory Amalgamation Procedure

The government would consider introducing a court-free statutory amalgamation procedure in Hong Kong in addition to the existing court-sanctioned procedure.

The consultation period will last for three months, ending on 30 September 2008. The proposals will be reviewed by relevant committees within the Institute. Members will be kept informed of developments through future issues of TechWatch.

International Meetings

11. International Accounting Standards Board

The IASB met in London on 16 – 20 June 2008, discussed the following topics:

- Amendments to *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- Annual improvements
- Conceptual Framework – Elements: Definition of a liability
- Extractive activities research project
- Fair value measurement
- Financial statement presentation
- Hedge accounting: FASB exposure draft
- Hedge accounting: qualifying exposures
- IFRIC – Ratification of interpretations
- IFRS for private entities (small and medium-sized entities, or SMEs)
- Technical plan
- Valuing financial instruments that are no longer active

Click [here](#) to view the June IASB Update. The IASB next meet on 21 – 25 July 2008.

12. International Financial Reporting Interpretations Committee

The IFRIC will meet in London on 10 – 11 July 2008. Click [here](#) for the meeting papers. Further details about the meeting will be reported in the next issue of TechWatch.

13. International Auditing and Assurance Standards Board

The IAASB will meet in Miami, United States, from 15 – 19 September 2008. Click [here](#) for the background papers and the forthcoming meeting summary of the June 2008 meeting in Greece.

14. International Ethics Standards Board for Accountants

The IESBA will meet in London, United Kingdom from 10 – 12 December 2008. Click [here](#) for the background papers and the forthcoming meeting summary of the June 2008 meeting in Belgium.

For Information

15. Companies Registry Issues FAQs on New Incorporation Procedures

A list of specific [frequently asked questions](#) on the New Incorporation Forms (NC1 and NC1G) and Memorandum and Articles of Association, to be effective on 11 July 2008, is now available on the Companies Registry's website.

Comment Due Dates

1 August 2008: [Re-Exposure Draft](#) on section 290 (Independence - Audit and Review Engagements) of the IFAC Code of Ethics for Professional Accountants

4 August 2008: [IASB Discussion Paper](#) on *Financial Instruments with Characteristics of Equity*

15 August 2008: [IASB Discussion Paper](#) on *Reducing Complexity in Reporting Financial Instruments*

25 August 2008: [IASB Discussion Paper](#) on *Preliminary Views on Amendments to IAS 19 Employee Benefits*

30 September 2008: [HKICPA Discussion Paper](#) on Financial Reporting by Private Companies

30 September 2008: [HKICPA Exposure Draft](#) on Proposed Amendments to SME-FRF and Proposed Sections of SME-FRS

Please send comments to
<commentletters@hkicpa.org.hk>