



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. [Re-run of Popular TUE Topics](#)

Financial Reporting

2. [Invitation to Comment on IASB Draft Pronouncements](#)
 - (i) [ED of An Improved Conceptual Framework for Financial Reporting: Chapter 1 and Chapter 2](#)
 - (ii) [Discussion Paper on Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity](#)
3. [Invitation to Comment on IASC Foundation Discussion Document](#)
4. [Comparison and Dual Compliance with HKFRSs and IFRSs](#)
5. [FRSC Meeting Summary – 6 May 2008](#)

Audit & Assurance

6. [LegCo Election Finance](#)
7. [Mainland Companies Strengthen Internal Controls](#)
8. [AASC Meeting Summary – 24 June 2008](#)

Ethics

9. [Invitation to Comment on Proposals to Clarify the Code of Ethics for Professional Accountants](#)

Taxation

10. [Consultation on Liberalisation of Exchange of Information Article in Double Taxation Agreements](#)

Corporate Finance

11. [HKEx Publishes Consultation Conclusion on Shortening the Reporting Deadlines by Main Board Issuers](#)

Legislation & Other Initiatives

12. [Institute Comments on the Companies Ordinance Rewrite Consultation](#)
13. [Government Notices Relating to Anti-money Laundering/Combating Terrorism Financing](#)
14. [Companies Registry Issues New and Revised Documents](#)

International Meetings

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

For Information

19. [Increase Number of Companies Registered in Hong Kong](#)

New Publications

20. [New Books in the Library](#)
21. [Other Publications](#)

Comment Due Dates



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Spotlight

1. Re-run of Popular TUE Topics

The **TUE programme** covering the period from September to November 2008 features a number of re-runs of the important and popular financial reporting and auditing topics, which include:

- Issues in Implementing HKFRSs
- Points to Note for Auditors
- HKAS 27 (Revised) *Consolidated and Separate Financial Statements*
- HKFRS 3 (Revised) *Business Combinations*
- 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. Invitation to Comment on IASB Draft Pronouncements

- (i) Exposure Draft (“ED”) of *An Improved Conceptual Framework for Financial Reporting: Chapter 1 and Chapter 2*

The Institute has issued an **Invitation to Comment** on IASB ED of *An Improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*, with comments requested by **29 August 2008**.

The ED reflects the IASB’s updated proposals in the light of comments received on a discussion paper *Preliminary Views on an improved Conceptual Framework for*

Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information published in July 2006.

It now proposes that the objective of financial reporting is to provide financial information that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. Financial reports should communicate information about an entity’s economic resources, claims on those resources, and the transactions and other events and circumstances that change them. It also presents an improved description of “faithful representation”, one of the qualitative characteristics that financial information should possess if it is to provide a useful basis for economic decisions.

A summary of the main proposals in the ED is set out in the Appendix to the Invitation to Comment.

- (ii) Discussion Paper on *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity*

The Institute has issued an **Invitation to comment** on the above IASB discussion paper, with comments requested by **29 August 2008**.

The Discussion Paper presents preliminary views for determining what constitutes a reporting entity for the purposes of financial reporting. Although the reporting entity concept determines some important aspects of financial reporting, the existing frameworks do not address it specifically.

The IASB’s preliminary views are:

- A reporting entity is a circumscribed area of business activity of interest to present and potential equity investors, lenders and other capital providers.

- Control is the basis for determining the composition of a group reporting entity, and the controlling entity model should be used as the primary basis for determining the composition of a group reporting entity.
- Consolidated financial statements should be prepared from the perspective of the group reporting entity.

A summary of the preliminary views in the Discussion Paper is set out in the Appendix to the Invitation to Comment.

3. Invitation to Comment on IASC Foundation Discussion Document

The Institute has issued an [Invitation to Comment](#) on IASC Foundation (“IASCF”) discussion document on *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals For Change*, with comments requested by **1 September 2008**.

The discussion document contains proposals that are dealt with in the first phase of the IASCF’s five-yearly Constitution Review. The IASCF Constitution would be amended to:

- Establish a formal link between the IASCF and a new Monitoring Group comprising representatives of public authorities and international organisations that have requirements for accountability to public authorities. The Monitoring Group would have the responsibility of approving the selection of IASCF Trustees. The Trustees would report to the Monitoring Group regularly to enable it to address whether and how the Trustees are fulfilling their role set out in the Constitution.
- Expand the membership of the IASB from 14 to 16 members by not later than 1 July 2012. Up to three members could be part-time. Approval of IFRSs and exposure drafts would require 10 affirmative votes (9 if there are fewer than 16 IASB members serving). The proposal would also adopt new guidelines regarding the geographical diversity of the members of the IASB.

4. Comparison and Dual Compliance with HKFRSs and IFRSs

The Institute has updated the [comparison table](#) between the Hong Kong Financial Reporting Standards (“HKFRSs”) and the International Financial Reporting Standards (“IFRSs”) up to 1 July 2008.

Although HKFRSs have been fully converged with IFRSs with effect from 1 January 2005, this does not automatically entitle companies reporting under HKFRSs to include an unreserved statement of compliance with IFRSs in their financial statements. Existing preparers applying HKFRSs that wish to claim compliance with IFRSs must also apply IFRS 1 *First-time Adoption of International Financial Reporting Standards* in the period when they first claim compliance. The Institute has published a [technical article](#) to discuss the ways to achieve dual compliance with HKFRSs and IFRSs.

5. FRSC Meeting Summary – 6 May 2008

This [FRSC meeting summary](#) covers:

- Project on dual compliance with IFRSs
- Draft Invitation to Comment and ED of Proposed Amendments to SME-FRF and SME-FRS
- Draft Consultation Paper on Financial Reporting by Private Companies
- Draft Interpretation IFRIC D23 *Distributions of Non-cash Assets to Owners*
- Invitation to Comment on IASB Discussion Paper – *Reducing Complexity in Reporting Financial Instruments*
- Invitation to Comment on IASB Discussion Paper – *Preliminary Views on Amendments to IAS 19 Employee Benefits*
- Proposed Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation

Audit & Assurance

6. LegCo Election Finance

The **revised notes** for candidate and independent auditor of candidate of Legislative Council (“LegCo”) elections under the LegCo Election Financial Assistance Scheme is now posted on the Institute’s website. The notes were prepared by the Registration and Electoral Office in consultation with the Institute for the coming September LegCo election.

7. Mainland Companies Strengthen Internal Controls

Three exposure drafts on internal controls have been issued by Mainland Financial Regulators. The EDs are about guidance on **auditing**, **assessment** and **application** to the **enterprise internal control framework**, effective for mainland listed companies from 1 July 2009.

Please express your views to the Institute by e-mail to < commentletters@hkipa.org.hk > no later than **10 September 2008** so that we can make a thorough submission to the mainland government.

8. AASC Meeting Summary – 24 June 2008

This **AASC meeting summary** covers:

- Adoption of new IAASB pronouncements
- Proposed circular on Capital Investment Entrant Scheme
- Progress report on proposed amendments by The Law Society
- Proposed Chinese version of Example Unqualified Assurance Report on Income and Expenditure Account of General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department (Other than Flag Days)

Ethics

9. Invitation to Comment on Proposals to Clarify the Code of Ethics for Professional Accountants

The Institute has issued an **Invitation to Comment** on the draft proposals of the IFAC International Ethics Standards Board for Accountants (“IESBA”) on clarifying the Code of Ethics for Professional Accountants (“the Code”), with comments requested by **10 September 2008**.

The IESBA is requesting comments only on the proposed changes to the Code that are the result of its drafting conventions project, and not on the Code itself.

The changes are intended to enhance the clarity of the Code by:

- Making clear the specific requirements that are contained in the Code; and
- Explaining the application of the Code’s conceptual framework.

In summary, the types of changes to the Code proposed in the ED are:

- Revise wording to indicate clearly what are the requirements;
- Provide guidance on when a temporary departure from a requirement in the Code is allowed, and how to do it;
- Describe the five categories of threats to compliance with the fundamental principles, and give examples of situations in which those threats might be created;
- Provide guidance on how to assess whether a threat to compliance with the fundamental principles is “clearly insignificant”, which is defined in the Code as “a matter that is deemed to be both trivial and inconsequential”;

- Clarify the 'conceptual framework approach' to emphasise the need for a professional accountant to apply the framework in the Code to any situation that is not explicitly addressed in the Code;
- Clarify that examples in the Code must be followed; and
- Put through drafting changes consistent with the following principles:
 - 'Consider' is used where the accountant is required to think about several matters.
 - 'Evaluate' is used when the accountant has to assess and weigh the significance of a matter.
 - 'Determine' is used when the accountant has to conclude and make a decision.

The IESBA proposes that the revised Code be effective on 15 December 2010, with earlier adoption encouraged.

Taxation

10. Consultation on Liberalisation of Exchange of Information Article in Double Taxation Agreements

The Financial Services and the Treasury Bureau is seeking the Institute's view on the liberalisation of exchange of information ("Eol") article for comprehensive double taxation agreements ("CDTA").

The HKSAR government has concluded four CDTAs, with Belgium, Thailand, Mainland China and Luxembourg, and is negotiating with another 11 economies.

A CDTA would normally include an Eol article that provides for the Eol between the two contracting jurisdictions. Hong Kong's existing CDTAs adopt an Eol article that is based on the **1995 version** of the Organisation for Economic Cooperation ("OECD")'s Model Tax Convention.

However, in their agreements with trading partners, many developed economies now adopt the more extensive wording of the **2004 OECD Model Tax Convention**.

It is argued that the liberalisation of Eol would facilitate the expansion of Hong Kong's CDTA network and bring economic benefits by enhancing Hong Kong's position as an international financial and business centre. However, reservations are also expressed by some that liberalisation would compromise confidentiality, which could affect investor confidence and the attraction of Hong Kong's low tax regime.

Amendments to the Inland Revenue Ordinance would be necessary before Hong Kong can adopt the 2004 version of the Eol article.

If you have any views on this subject, please e-mail to < commentletters@hkicpa.org.hk > under the subject heading "Liberalisation of Eol" no later than **20 August 2008**.

Corporate Finance

11. HKEx Publishes Consultation Conclusion on Shortening the Reporting Deadlines by Main Board Issuers

On 18 July 2008, Hong Kong Exchanges and Clearing Limited ("HKEx") published its **Consultation Conclusion** on shortening the deadlines for half-year and annual reporting by main board issuers. This dealt with some of the issues covered in an August 2007 consultation paper on Periodic Financial Reporting, which was reported on in **TechWatch No. 60**. The Institute's submission on the consultation paper was reported on in **TechWatch No. 62**.

The main decisions reflected in the conclusions are to:

- Shorten the reporting deadlines for the release of half-year results announcements from three months to two months; and
- shorten the reporting deadlines for the release of annual results announcements from four months to three months; but

- retain the existing reporting deadlines for the release of half-year and annual reports, i.e., three months and four months, respectively.

The new requirements will come into effect for half-year and annual results announcements covering accounting periods ending on or after 30 June 2010 and 31 December 2010, respectively.

Legislation & Other Initiatives

12. Institute Comments on the Companies Ordinance Rewrite Consultation

As reported in [TechWatch No. 67](#), the government issued a [consultation paper](#) in April 2008 covering measures to improve provisions in the Companies Ordinance (“CO”) dealing with company names, directors’ duties, corporate directorship and registration of charges.

In its [submission](#) to the government, the Institute is generally supportive of the proposals with regard to company names.

The Institute also expresses support, in principle, for the proposal to codify in the CO the basic principles of directors’ fiduciary duties and duties of care and skill, reiterating the position taken on a similar proposal put forward previously by the Standing Committee of Company Law Reform. However, the Institute does not support going beyond this, as in the Companies Act in the United Kingdom (“UK”), to include a duty for directors to promote the success of the company, having regard to a wider range of factors such as the interests of employees, suppliers and customers and the impact of the company’s operation on the community and the environment.

On the proposal to abolish corporate directorships, noting that the international trend is to move towards greater transparency, the Institute supports, as a first step, adopting the UK approach, i.e., requiring at least one director to be a natural person. The opportunity is also taken to propose that, at the same time, proportionate liability for directors be considered,

given that there is a risk that a sole natural person director could become, potentially, the target of claims against the company.

On the registration of charges, while being generally of the view that the present system is working satisfactorily and does not require any substantial changes, the Institute remains open-minded on streamlining certain provisions, where sufficient justification can be provided.

13. Government Notices Relating to Anti-money Laundering/Combating Terrorism Financing

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

- [Government notice 4406](#): This specifies persons and entities under the United Nations Sanctions (Democratic Republic of the Congo) (No. 2) Regulation 2008, which was made under the United Nations Sanctions Ordinance (Cap. 537) and published as [Legal Notice 166](#) in the gazette.
- [Government notice 4473](#), which specifies persons and entities under United Nations Sanctions (Liberia) Regulation 2008.
- [US Executive Order 13224](#), which 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”.

14. Companies Registry Issues New and Revised Documents

- (i) Following the implementation of provisions relating to the introduction of new incorporation forms and expansion of the index of directors to cover “reserve

directors” (see [TechWatch No. 68](#)), the Companies Registry (“CR”) has updated the following documents:

Revised pamphlets:

- [Price Guide to Main Services](#)
- [Incorporation of a Local Limited Company](#)
- [Filing Requirements of a Local Limited Company after Incorporation](#)
- [Filing of Annual Return by a Local Limited Company](#)
- [How to Obtain Company Information](#)
- [How to Purchase Specified Forms](#)
- [A Company's Obligations after Registration](#)
- [Incorporation or Change of Name of a Local Limited Company - Points to Note.](#)

Revised Memorandum note on “[Procedure for applying to Registrar of Companies for a Licence under Section 21 of the Companies Ordinance \(Cap. 32\)](#)”.

New/revised forms: NC1, NC1G, D2A, D5 and R1.

Revised documents for electronic search services:

- [Services Available](#)
- [Price List](#)
- [Frequently Asked Questions](#)
- [Registration Procedures](#)

Revised Frequently Asked Questions on:

- [Incorporation of a Local Limited Company](#)
- [Specified Forms](#)

- [Compliance](#)
- [Filing Documents by Local Companies - Share Capital / Shares](#)
- [Electronic Search Services](#)

(ii) Revision of Specified Forms

With effect from 11 July 2008, a confirmation statement in relation to “Non-statutory Guidelines on Directors’ Duties” is replaced with an advisory note (see [TechWatch No. 68](#)). Accordingly, the relevant forms (AR1, AR2, AR3, D6, N3 and N4) have been **revised** and they are now available on the CR’s website.

Companies or document presenters may file the old forms with the CR, either with or without the confirmatory statements, up to 31 December 2008.

International Meetings

15. International Accounting Standards Board

The IASB met in London on 21 – 25 July 2008, discussed the following topics:

- Agenda proposals
- Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- Consolidation
- Fair value measurement
- Financial instruments with characteristics of equity
- Financial Statement Presentation
- IFRS for private entities (formerly small and medium-sized entities, or SMEs)
- Income taxes
- Leases
- Management commentary

- Revenue recognition
- Standards Advisory Council report
- Update on IFRIC activities
- Valuing financial instruments in markets that are no longer active

Click [here](#) to view the July IASB Update. The IASB next meet on 15 – 19 September 2008.

16. International Financial Reporting Interpretations Committee

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

- IFRIC D23 *Distributions of Non-cash Assets to Owners*
- IFRIC D24 *Customer Contributions*
- *Group Cash-settled Share-based Payment Transactions* (Proposed amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*)
- Compliance costs for REACH
- Agenda decision
- Tentative agenda decisions
- Work in progress

Click [here](#) to view the July IFRIC Update. The IFRIC next meets on 4 – 5 September 2008.

17. International Auditing and Assurance Standards Board

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

18. 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 meeting summary of the June 2008 meeting in Belgium.

For Information

19. Increase Number of Companies Registered in Hong Kong

According to [statistics](#) released by the Companies Registry, the number of local and non-Hong Kong companies registered under the Companies Ordinance increased by 11.4% and 45.57%, respectively, during the first six months of 2008 compared with the corresponding period of 2007.

New Publications

20. New Books in the Library

New books of high reference value for members are now available in the library. Please click [here](#) to view the full list of reference books.

21. Other Publications

- Deloitte has published guidance on [revised IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements](#).
- New guidance for fighting fraud, entitled, *Managing the Business Risk of Fraud: A Practical Guide*, has been [released](#) jointly by the American Institute of Certified Public Accountants, the Association of Certified Fraud Examiners and the Institute of Internal Auditors. The guide provides a practical approach for companies to improve fraud risk management, and outlines the principles for establishing effective fraud risk management, regardless of the type or size of an organisation.

- The Institute of Chartered Accountants of Scotland has issued a practical **guide** for directors of private companies. The guide sets out the principles of governance and how they may be applied in private companies.
- **The trustees of the International Accounting Standards Committee Foundation** has published a proposal on enhancements to its accountability and to the IASB composition.

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*

20 August 2008: Liberalisation of Exchange of Information Article in Double Taxation Agreements

25 August 2008: IASB Discussion Paper on *Preliminary Views on Amendments to IAS 19 Employee Benefits*

29 August 2008: IASB ED of *An Improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*

29 August 2008: IASB Discussion Paper on *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity*

1 September 2008: IASC Foundation discussion document on *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals For Change*

10 September 2008: IFAC Exposure Draft on Code of Ethics for Professional Accountants – Proposals to Clarify

10 September 2008: Exposure drafts on internal controls issued by mainland financial regulators in relation to guidance on **auditing, assessment** and **application** to the **enterprise internal control framework** effective for mainland listed companies from 1 July 2009.

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

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