



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@hkipa.org.hk >. Click [here](#) for past issues.

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Spotlight

1. Handbook Update No. 54

Update No. 54 encloses amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets. Further details are set out below:

(i) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement*

The amendments to HKAS 39 introduce the possibility of reclassifications for companies applying Hong Kong Financial Reporting Standards (HKFRS), which were already permitted under US generally accepted accounting principles (GAAP) in rare circumstances. The amendments reduce differences between HKFRSs and US GAAP and create a more level playing field for those companies applying HKFRSs and those using US GAAP regarding the ability to reclassify financial assets.

The deterioration of the world’s financial markets that has occurred during the third quarter of this year is a possible example of rare circumstances (a single event that is unusual and highly unlikely to recur in the near future) cited in these HKFRS amendments.

The amendments permit an entity to reclassify non-derivative financial assets that are classified as held for trading in particular circumstances. They also permit an entity to reclassify certain financial assets from the available-for-sale (AFS) category to the loans and receivables category if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

The following table illustrates how reclassification will be dealt with following the amendment when compared with US GAAP.

	US GAAP	HKAS 39 Amendments
Reclassification of securities (non-derivative) out of the trading category in rare circumstances (other than those designated in fair value through profit or loss upon initial recognition)	Permitted	Permitted
Reclassification to loan category (cost basis) if intention and ability to hold for the foreseeable future (loans) or until maturity (debt securities)	Permitted	Permitted
Reclassification if fair value option previously elected	Not permitted	Not permitted

(ii) Amendments to HKFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets

The amendments to HKFRS 7 *Financial Instruments: Disclosures* require extensive disclosures for any financial asset reclassified in the situations described above.

An entity shall apply the amendments to HKAS 39 and HKFRS 7 from 1 July 2008.

An entity shall not reclassify a financial asset before 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. However, any reclassification before 1 November 2008 can take effect from 1 July 2008 or a subsequent date. Any reclassification cannot be applied retrospectively before 1 July 2008.

For further guidance, please refer to the following emails from the Institute:

- (i) [Email of 14 October 2008](#)
- (ii) [Email of 22 October 2008](#)

For general guidance only, a set of [questions and answers](#) has been developed for reference.

Financial Reporting

2. Institute Comments on IASB Discussion Paper

The Institute made a [submission](#) to the IASB discussion paper on *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity*. The submission generally indicates support for the proposals made in the discussion paper. In particular, it agrees that a reporting entity should not be limited to business activities that are structured as legal entities. Furthermore, it agrees that a broad definition of control is appropriate at the conceptual framework level.

However, the Institute is concerned with the proposal that consolidated financial statements are presented from the perspective of the group reporting entity and not from the perspective of the parent company's stakeholders.

3. Institute Comments on IASC Foundation Discussion Document

The Institute made a [submission](#) to the IASC Foundation discussion document on *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change*. The submission supports the creation of a monitoring group, which will establish a direct link of public accountability between the IASC Foundation and official institutions. However, it is important to ensure that the monitoring group would not undermine the independence of the IASB standard-setting process.

The Institute also agrees that the proposal of expanding the size of the IASB and introducing geographical diversity can enhance the ability to consult interested parties. Furthermore, the Institute encourages the IASB to consider the

formation of regional or functional groupings of stakeholders sponsored by the IAS Foundation in order to facilitate more effective communications on IFRSs. The Institute indicates that it would be pleased to host these regional or functional groups.

4. FRSC Meeting Summary – 2 September 2008

This [FRSC meeting summary](#) covers:

- Proposed Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- Amendments to HKFRS 1 and HKAS 27 – *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Draft Submission to IASB Discussion Papers and Exposure Draft
- Invitation to Comment on IASB Exposure Draft of *Proposed Improvements to IFRSs*
- Invitation to Comment on IASB Exposure Draft of *Proposed Amendments to IAS 33 – Simplifying Earnings per Share*
- Progress report of HKFRS/IFRS Forum

Audit & Assurance

5. Invitation to Comment on IAASB Consultation Paper

The Institute has issued an [Invitation to Comment](#) on the IAASB consultation paper “Matters to Consider in a Revision of International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*”, with comments requested by **16 November 2008**.

It is expected that the responses to this consultation paper will assist the IAASB in its consideration of a relevant and cost-effective assurance service that is an alternative to an audit for small and medium-sized entities in particular. In doing so, it helps accelerate the IAASB's work to revise ISRE 2400.

In summary, the consultation paper focuses on a number of significant matters relevant to the revision of ISRE 2400, including the nature and extent of the work a practitioner should perform in an engagement to review financial statements, and how the level of assurance obtained should best be communicated to users.

Ethics

6. Institute Comments on Proposals to Clarify the Code of Ethics for Professional Accountants

The Institute made a [submission](#) to the IFAC IESBA exposure draft on *Proposed Revised Code of Ethics for Professional Accountants*, setting out comments on the proposals to clarify in relation to the drafting conventions project. The submission indicates that the Institute is supportive of the current work of the IESBA, which seeks to consider the necessary revisions to auditor independence requirements given the changing environment in the past few years.

The Institute also made certain comments on specific questions as requested and recommended further guidance on certain terms for better clarity.

Taxation

7. Agenda Items Invited for 2009 Annual Meeting with Commissioner of Inland Revenue

The next regular annual meeting between the Institute and Commissioner of Inland Revenue will be held in February 2009 to discuss matters of common interest or concern in relation to tax practice and procedure.

If you wish to suggest agenda items, please use this [form](#) to provide a reasonably brief and clear explanation of the issue, and return the form to the Institute via fax (2865-6603) or e-mail <elena@hkcipa.org.hk> by **28 November 2008**. Agenda items should focus on matters of general concern rather than the details of specific cases, unless cases are indicative of wider issues.

Legislation & Other Initiatives

8. Institute Comments on 3rd Public Consultation on Companies Ordinance Rewrite

As reported in [TechWatch No. 69](#), the government issued a [consultation paper](#) in June 2008 covering legislative proposals in relation to the following:

(i) Share capital

In its [submission](#) to the government, the Institute expresses support, in principle, of the proposal with regard to adopting a mandatory system of no-par for companies with a share capital.

As regards whether there should be any specific legislative control over the setting of issue price of no-par shares, and whether or not to dispense with the requirement for authorised capital, the Institute notes that different approaches have been adopted in different jurisdictions and considers that more background information and further discussion are needed before deciding the best way forward for Hong Kong.

The Institute considers that the option of having partly paid shares should be retained and comments on related matters.

(ii) Capital maintenance regime and statutory amalgamation procedure

As regards the proposals in relation to capital maintenance regime, the Institute takes the view that, in principle, Hong Kong should adopt some form of "solvency test" approach to creditor protection and that, in the long run, this should apply to all forms of distribution. However, as the existing rules on the distribution of dividends are said to have worked well, the solvency test could be extended to other forms of distribution initially and only later to dividends, once directors have become more accustomed to the practical application of the test. In addition, the existing solvency requirement in Hong Kong, which is basically a cash flow test, should be modified by including a

balance sheet solvency test, covering both current and total assets/liabilities, to provide a more comprehensive and objective approach in the assessment of solvency and better safeguards for creditors.

The Institute also supports the proposals for introduction of court-free procedures on the reduction of capital and statutory amalgamations in Hong Kong, in addition to the existing court-sanctioned procedures. In the case of a court-free amalgamation procedure, this should be subject to a buy-out right for dissenting minority shareholders, to safeguard their interest as in the New Zealand Companies Act.

International Meetings

9. International Accounting Standards Board

The IASB met in London on 2 October (additional meeting) and 13 – 17 October 2008, and discussed the following topics:

- Amendments to IFRS 7: *Financial Instruments Disclosures*
- Consolidation
- Disclosures: off balance sheet entities
- Credit crisis
- Annual improvements
- Fair value measurement
- Financial instruments with characteristics of equity
- IFRS for private entities
- Insurance contracts
- Share-based payment
- Technical plan

Click to view the IASB Update for the meetings on [2 October](#) and [13 – 17 October](#). The IASB next meets on 17 – 21 November 2008.

10. International Financial Reporting Interpretations Committee

The IFRIC will meet in London on 6 November 2008. Click [here](#) for the background papers.

11. International Auditing and Assurance Standards Board

The IAASB will meet in Brussels, Belgium, from 8 – 12 December 2008. Click [here](#) for registration for the December meeting and the background papers and meeting summary of the September 2008 meeting in United States.

12. 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 held in Belgium.

For Information

13. Companies Registry News

- (i) Companies Registry Trading Fund publishes 2007/08 annual report

The Companies Registry Trading Fund (Registry) has announced the publication of its [annual report 2007/2008](#), which covers the initiatives conducted by the Registry for the year ended 31 March 2008.

- (ii) Non-statutory guidelines on directors' duties

Revisions have been made to paragraphs 3 and 4 in the introduction of the ["Non-statutory guidelines on directors' duties"](#) to align the guidelines with the contents of the advisory note and notes for completion in specified forms. The eleven principles of directors' duties remain unchanged.

- (iii) File returns under the Companies Ordinance on time

A new information flyer on ["File returns under the Companies Ordinance on time"](#) is now available.

New Publications

14. New Books in the Library

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

15. Other Publications

- The following are updates by different organizations in respect of the amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*:
 - [IASB Update](#) on details regarding the effective date of the amendments
 - [Deloitte IAS Plus](#) on reclassification of financial assets
 - [KPMG IFRS Briefing Sheet](#) on reclassification of financial assets
- PwC has published:
 - a [guide](#) to explain and discuss derecognition of financial assets in practice
 - [Q&A](#) on HKAS 23 (revised) *Borrowing Costs* (Part 2)

Comment Due Dates

10 November 2008: [IASB Exposure Draft](#) of *Proposed Amendments to IAS 33 – Simplifying Earnings per Share*

16 November 2008: [IAASB Consultation Paper](#) "Matters to Consider in a Revision of International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*"

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