



TechWatch

News at a glance

Issue 74 • November 2008

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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Spotlight

1. Financial Reporting Forum – 18 December 2008

The Institute will hold a Financial Reporting Forum on the IASB discussion paper on *Preliminary Views on Financial Statement Presentation* on 18 December 2008. The forum will outline the main changes proposed by the discussion paper and if adopted, the potential implications.

To secure your seats, please register early by completing the [registration form](#) and returning it to the Institute.

Members' Handbook

2. Handbook Updates No. 55, 56 and 57

(i) **Update No. 55** encloses:

- *Improvements to HKFRSs*
- Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*.

More details are set out in the “Financial Reporting” section below.

(ii) **Update No. 56** encloses amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*.

More details are set out in the “Financial Reporting” section below.

(iii) **Update No. 57** encloses amendments to Statement 1.500 *Continuing Professional Development* to:

- include recognition of Continuing Professional Development (CPD) requirements of the Institutes

that belong to the Global Accounting Alliance, and

- allow member practices or organisations to make a block declaration of CPD compliance for their staff if certain criteria are met.

Financial Reporting

3. Institute Issues Amendments to Financial Reporting Standards

(i) *Improvements to HKFRSs* (Handbook Update No. 55)

Improvements to Hong Kong Financial Reporting Standards (“HKFRSs”) shall be effective for annual periods beginning on or after 1 January 2009 (unless otherwise specified). Earlier application is permitted.

It sets out necessary, but non-urgent, amendments to HKFRSs. The objective is to ease the burden for all concerned by presenting the amendments in a single document rather than as a series of piecemeal changes. The amendments issued are presented in two parts:

- Part I, contains amendments to 15 HKFRSs that result in accounting changes for presentation, recognition or measurement purposes with the rationale included in related bases for conclusions, and
- Part II, contains amendments that are terminology or editorial changes only, which is expected to have no or minimal effect on accounting.

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

(ii) Amendments to HKFRS 1 and HKAS 27 (Handbook Update No. 55)

The amendments to HKFRS 1 *First-time Adoption of HKFRSs* are effective for

annual periods beginning on or after 1 January 2009, with earlier application permitted.

The amendments to Hong Kong Accounting Standard (“HKAS”) 27 *Consolidated and Separate Financial Statements* regarding the recognition of dividends from subsidiaries, jointly controlled entities and associates shall be applied prospectively, for annual periods beginning on or after 1 January 2009, with early application permitted. If these amendments were applied to an earlier period, the related amendments to HKAS 18 *Revenue*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates* and HKAS 36 *Impairment of Assets* shall be applied at the same time.

The amendments to HKAS 27 on reorganisation shall be applied prospectively to reorganisations occurring in annual periods beginning on or after 1 January 2009, with earlier application permitted. If these amendments were applied retrospectively to past reorganisations, all later reorganisations shall be restated.

The amendments to HKFRS 1 and HKAS 27 respond to concerns that retrospectively determining cost and applying the cost method in accordance with HKAS 27 on first-time adoption of HKFRSs cannot, in some circumstances, be achieved without undue cost or effort. The amendments address the issue:

- by allowing first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements; and
- by removing the definition of the cost method from HKAS 27 and replacing it with a requirement to present dividends as income in the separate financial statements of the investor.

The amendments to HKAS 27 also deal with the initial measurement of cost in the separate financial statements of a new parent formed as the result of a specific type of reorganisation. It requires the new parent to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganisation.

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

- (iii) Amendment to HKAS 39 (Handbook Update No. 56)

Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* is effective for annual periods beginning on or after 1 July 2009, with earlier application permitted.

The amendment clarifies how the principles underlying hedge accounting should be applied in the following situations:

- Qualifying hedged items – a one-sided risk in a hedged item

An entity can designate all changes in the cash flows or fair value of a hedged item in a hedging relationship. An entity can also designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk). The amendment clarifies that only the intrinsic value, not the time value, of an option reflects a one-sided risk and therefore, an option designated in its entirety cannot be perfectly effective.

- Designation of inflation as a hedged item

The amendment clarifies that inflation cannot be designated as a risk or a portion of a financial instrument unless inflation is a contractually specified

portion of the cash flows of a recognised financial instrument, such as an inflation-linked bond.

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

4. Invitation to Comment on IASB Draft Pronouncements

- (i) Exposure Draft (“ED”) of *Proposed Amendments to IFRS 7 - Improving Disclosures about Financial Instruments*

The Institute has issued an **Invitation to Comment** on the above International Accounting Standards Board (“IASB”) ED, with comments requested by **28 November 2008**.

The ED forms part of the IASB’s response to the credit crisis and follows recommendations of the Financial Stability Forum. It also reflects discussions by the IASB’s Expert Advisory Panel on measuring and disclosing fair values of financial instruments when markets are no longer active.

The ED introduces a three-level fair value hierarchy to enhance disclosures about fair value measures, particularly for those that use the most subjective inputs. It also proposes to improve disclosures about liquidity risk to address the diversity in interpretation of the disclosure requirements, including quantitative disclosures for derivative liabilities based on how liquidity risk is managed.

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

- (ii) ED of *Proposed Amendments to IFRS 1 - Additional Exemptions for First-time Adopters*

The Institute has issued an **Invitation to Comment** on the above IASB ED, with comments requested by **6 January 2009**.

The ED proposes amendments to International Financial Reporting Standard (“IFRS”) 1 *First-time Adoption of IFRSs* to address the retrospective application of IFRSs in selected areas and is aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process.

The ED proposes to exempt:

- companies from retrospective application of IFRSs, in respect of oil and gas assets using the full cost method and operations subject to rate regulation; and
- companies with existing leasing contracts accounted for in accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease*, from reassessing the classification of those contracts according to IFRSs when the same classification has previously been made in accordance with national generally accepted accounting principles (“GAAP”).

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

- (iii) ED of *Proposed Amendments to IFRS 5 - Discontinued Operations*

The Institute has issued an **Invitation to Comment** on the above IASB ED, with comments requested by **6 January 2009**.

The ED is a limited review of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The IASB and the US Financial Accounting Standards Board (collectively, “the Boards”) work together to develop a common definition of discontinued operations and require common disclosures in respect of components of an entity that either have been disposed of or are classified as held for sale.

The proposed definition reflects the definition of operating segments in IFRS 8

Operating Segments and strengthens the basic principle in IFRS 5. It could result in fewer items being recognised in financial statements as discontinued operations than at present. However, the additional disclosures would give information about components of an entity that have been disposed of or are held for sale but do not meet the definition of a discontinued operation.

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

(iv) Discussion Paper (“DP”) on *Financial Statement Presentation*

The Institute has issued an **Invitation to Comment** on the above IASB DP, with comments requested by **13 March 2009**.

The DP is the result of a joint project by the Boards to create a standard that requires an entity to organise financial statements that clearly communicate an integrated financial picture of the entity.

At present, IFRS and US GAAP provide only limited presentation guidance. Users of financial statements have often expressed dissatisfaction that information is not linked across the different statements and that dissimilar items are, in some cases, aggregated in one number.

To address these issues, the Boards propose to introduce two main objectives for financial statement presentation, which are:

- cohesiveness, to ensure that a reader of financial statements can follow the flow of information through the different statements of an entity; and
- disaggregation, to ensure that items that respond differently to economic events are shown separately. To achieve these main objectives, the Boards have developed a principle-based format that is presented in the DP.

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

5. Institute Comments on IASB ED of Proposed Improvements to IFRSs (Second Set)

This is the second set of proposals under the IASB’s annual improvements process to deal with non-urgent but necessary amendments to standards. The ED focuses on areas of inconsistency in standards or clarification of wording and proposes amendments to eight IFRSs.

The **Institute’s submission** generally agrees that the proposed amendments are appropriate matters to be addressed in the annual improvements project. However, the Institute expressed concerns for the:

- Proposed amendment to IAS 7 *Statement of Cash Flows - Classification of Expenditures on Unrecognised Assets*

The Institute is concerned that this would lead to the classification of a cash flow as operating activity instead of investing activity when an expenditure, economically represents an investing activity but does not result in a recognised asset. The Institute would prefer this issue to be addressed in the recent DP on *Financial Statement Presentation* rather than as part of the annual improvements project.

- Proposed clarification to IAS 39 *Financial Instruments: Recognition and Measurement*

The Institute is concerned that the proposal to clarify fair value option in paragraph 11A applies only to financial instruments with embedded derivative may mean a substantial change to many preparers. The Institute would recommend that the IASB expand the amendment to clarify the accounting treatment in the area where the host contract is outside the scope of IAS 39 and deal with the proposed amendment through a specific ED instead of the scope of the annual improvements project.

6. FRSC Meeting Summary – 2 October 2008

This [FRSC meeting summary](#) covers:

- IASC Foundation Discussion Document of *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change*
- IASB Discussion Paper on *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity*
- Report on National Standard Setters Meeting and World Standard Setters Meeting

Audit & Assurance

7. IFAC Clarity Project Update

The International Federation of Accountants (“IFAC”) has released a [Clarity Project Update](#) to help those with responsibilities relating to audits of financial statements to ensure that audits are effectively carried out under the clarified International Standards on Auditing (“ISAs”) and clarified International Standards on Quality Control (“ISQC”) 1 (collectively, “the standards”) when the standards come into effect.

The update provides:

- the status of the standards as of October 2008 and location of the standards on the International Auditing and Assurance Standards Board (“IAASB”) website,
- general considerations for implementation of the clarified standards, and
- an overview of the main changes to the standards arising from the Clarity Project.

8. IAASB Alert on Fair Value Accounting Estimates

The staff of IAASB has released an [audit practice alert](#) to assist auditors in addressing the challenges of auditing fair value accounting estimates. The alert was developed following consultation with the IAASB’s Task Force on

Fair Value Auditing Guidance, which is considering the need for new or modified guidance in light of current marketplace issues.

The purpose of the alert is to highlight areas within the ISAs that are particularly relevant in the audit of fair value accounting estimates in times of market uncertainty.

Corporate Governance

9. Results of the 2008 Best Corporate Governance Disclosure Awards

The Institute’s 2008 Best Corporate Governance Disclosure Awards (“awards”) was successfully concluded with the presentation ceremony held at a luncheon on 21 November 2008. The guest of honour, the Under Secretary for Financial Services and the Treasury, Ms. Julia Leung, addressed the audience and presented the awards to the winners. Emphasising the importance of transparency and disclosure, particularly during the global financial turmoil, in her speech, Ms. Leung said: “Without information, there is no trust, a fundamental ingredient in any contractual relationship. When trust breaks down, fear and panic set in”. Envisaging more financial services sector regulation in future, she said, “it is only appropriate that the HKICPA continues to uphold the highest standards for corporate governance disclosure in anticipation of the new regulatory era.”

The results of the 2008 awards were announced at a [media briefing](#) held prior to the luncheon. At the media briefing, the Institute’s president, vice president and chairman of the professional accountants in business committee, and the chairman of the awards organizing committee briefly addressed the audience about the overall standard of the entries and some of the best corporate governance practices of the winning companies and organisations. Amongst other things, they noted the improvement in the corporate governance disclosures and practices of some of the Mainland banks, which garnered two awards and a special mention this year.

The winners of the 2008 awards are:

Hang Seng Index Category

Diamond - CLP Holdings Limited
 Platinum - HSBC Holdings plc
 Gold - Hong Kong Exchanges and Clearing Limited
 Significant Improvement - Bank of Communications Co., Ltd (*Hang Seng Index/H-share Companies Categories*)

Non-Hang Seng Index Category

Diamond - Hysan Development Company Limited
 Platinum - Standard Chartered PLC
 Gold - Transport International Holdings Limited

H-share Companies Category

Diamond - Shenzhen Expressway Company Limited
 Platinum - Jiangsu Expressway Company Limited
 Gold - Industrial and Commercial Bank of China Limited
 Special Mention - China Construction Bank Corporation

Public Sector/Not-for-profit Organisations

Diamond - Airport Authority Hong Kong
 Platinum - Securities and Futures Commission

In addition to the results, the **judges' report** for the 2008 awards contains the judges' commentaries on the winning annual reports, the observations of the judges and reviewers on the overall standard of corporate governance disclosures and practices in Hong Kong, as well as other background information.

Professional Accountants in Business

10. IFAC Publishes Survey Results on Public Sector Performance Indicators

The IFAC has published an **information paper**, *Developments in Performance Measurement Structures in Public Sector Entities*.

The paper covers the results of a survey on the way in which public sector entities set financial and non-financial objectives, measure performance and report on results. The survey also looks at how the different approaches adopted affect the satisfaction levels of internal stakeholders. The results are based on 250

responses from public sector organisations worldwide.

IFAC notes that the results will help professional accountants in business that work in the public sector to evaluate and further improve their own financial and non-financial performance measurement structures. This will enable them to better plan, execute and control their organisation's service delivery and to achieve a higher level of accountability.

Legislation & Other Initiatives

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

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

- **Government notice 7853:** Terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **Government notice 7854:** Persons and entities under the United Nations Sanctions (Afghanistan) Regulation.
- **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".
- **Financial Action Task Force on Money Laundering Statement:** Draws the attention of its members (Hong Kong has been a member since 1990) to take into account the risks of transactions involving Iran, Uzbekistan, Turkmenistan, Pakistan, São Tomé and Príncipe.

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".

12. Companies Registry Publishes List of Licensed Money Lenders and Licence Applicants

The Companies Registry has published a [list](#) of licensed money lenders and applicants for licences, which provides information on the status of their licences and applications.

International Meetings

13. International Accounting Standards Board

The IASB met in London on 17 – 21 November 2008.

- Global financial crisis
- Conceptual framework
- Fair value measurement
- Financial instruments with characteristics of equity
- IFRIC issues
- IFRS for private entities
- Leases
- Post-employment benefits
- Related party disclosures
- SAC update

Click [here](#) to view the November IASB Update. The IASB next meets on 15 - 19 December 2008.

14. International Financial Reporting Interpretations Committee

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

- IFRIC D24 *Customer Contributions*
- Compliance costs for REACH
- Customer-related intangible assets

- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction—* Voluntary prepaid contributions under a minimum funding requirement
- Agenda decisions
- Tentative agenda decisions
- Work in progress

Click [here](#) to view the November IFRIC Update. The IFRIC next meets on 8 – 9 January 2009.

15. International Auditing and Assurance Standards Board

The IAASB will meet in Brussels, Belgium, from 8 – 11 December 2008. Click [here](#) for the background papers and the meeting summary of the September 2008 meeting in United States.

16. International Ethics Standards Board for Accountants

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

For Information

17. New Business Registration Office (Receipt & Despatch Centre)

A [Business Registration Office \(Receipt & Despatch Centre\)](#) will open on 1 December 2008 at the Companies Registry's Public Search Centre, 13th Floor, Queensway Government Offices, 66 Queensway, Hong Kong. Services offered include:

- Application for business registration
- Collection of business registration certificate
- Notification of changes of business registration particulars
- Collection of related standard forms

18. National Standard Setters Communiqué

National standard setters expressed support of global financial reporting standards in a [letter](#) to the IASB on 14 November 2008. The Institute was one of 20 jurisdictions that signed the document.

New Publications

19. 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.

20. Other Publications

The following are publications on various topics:

- (i) Reclassification of financial assets (amendments to HKAS 39 and HKFRS 7):
 - [Q&As on reclassification of financial assets](#) for general guidance by the Institute
 - [Supplement to IFRS outlook](#) with a accompanying [update](#) by Ernst & Young
 - [HKFRS news](#) and [Hong Kong tax news flash](#) by PricewaterhouseCoopers
- (ii) 2008 illustrative financial statements
 - [Illustrative IFRS corporate consolidated financial statements](#) by PricewaterhouseCoopers
 - [International GAAP illustrative financial statements](#) by Ernst & Young
- (iii) Fair value measurement in inactive markets
 - An [Expert Advisory Panel report](#) and accompanying [staff summary](#) by IASB
 - [IFRS briefing sheet](#) by KPMG

(iv) Operating segments

- [HKFRS news](#) by PricewaterhouseCoopers

(v) Overview of the changes in IFRS

- [2008 IFRS update](#) by Ernst & Young

Comment Due Dates

28 November 2008: IASB Exposure Draft of *Proposed Amendments to IFRS 7 - Improving Disclosures about Financial Instruments*

6 January 2009:

- IASB Exposure Draft of *Proposed Amendments to IFRS 1 - Additional Exemptions for First-time Adopters*
- IASB Exposure Draft of *Proposed Amendments to IFRS 5 - Discontinued Operations*

13 March 2009: Discussion Paper ("DP") on *Financial Statement Presentation*

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