



# 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](mailto:commentletters@hkicpa.org.hk) >. Click [here](#) for past issues.

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## Spotlight

### 1. Financial Crisis Database

A focused section on the financial crisis is now available in this edition of TechWatch. By referring to the “Financial Crisis Database” section, members can take note of:

- upcoming relevant CPD events; and
- list of archived resources, most of which were previously disseminated to members through the Institute’s website, A Plus, weekly e-circular and TechWatch.

## Members’ Handbook

### 2. Handbook Updates No. 58, 59 and 60

- (i) **Update No. 58** encloses amendments to HKAS 39 and HKFRS 7: *Reclassification of Financial Assets—Effective Date and Transition*.
- (ii) **Update No. 59** encloses:
  - HK(IFRIC) Interpretation 17 *Distributions of Non-cash Assets to Owners*
  - Other consequential amendments
- (iii) **Update No. 60** encloses:
  - HKFRS 1 (Revised) *First-time Adoption of Hong Kong Financial Reporting Standards*
  - Other consequential amendments

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

## Financial Reporting

### 3. Amendments to HKAS 39 and HKFRS 7 (Handbook Update No. 58)

Following the publication of the amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures*, the IASB subsequently clarified the requirements on the effective date at its October meeting.

The clarification has now been incorporated in the amendments to HKAS 39 and HKFRS 7: *Reclassification of Financial Assets—Effective Date and Transition*.

### 4. Amendments to HK(IFRIC) Interpretation 17 (Handbook Update No. 59)

HK(IFRIC)–Int 17 *Distributions of Non-cash Assets to Owners* (“interpretation”) shall be effective for annual periods beginning on or after 1 July 2009. Earlier application is permitted. The interpretation shall not be applied retrospectively (i.e. prospective application shall be required).

The interpretation will standardise practice in the accounting treatment of distribution of non-cash assets to owners.

Existing HKFRSs do not address how an entity should measure distributions of assets other than cash when it pays dividends to its owners. At present the dividend payable is recognised at the carrying amount of the assets to be distributed or at their fair value. As a result significant diversity in practice has developed, and the interpretation is issued to provide guidance.

The interpretation clarifies that:

- a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- an entity should measure the dividend payable at the fair value of the net assets to be distributed; and
- an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

The interpretation also:

- requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation; and
- applies to pro rata distributions of non-cash assets except for common control transactions.

## 5. HKFRS 1 (Revised) (Handbook Update No. 60)

Since HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* was issued in 2003, it has been amended many times to accommodate first-time adoption requirements resulting from new or amended HKFRSs, and as a result the text has become increasingly complex.

Therefore, HKFRS 1 is revised to make it easier for the reader to understand, and to design it to better accommodate future changes. HKFRS 1 (Revised) has an improved structure but does not contain any technical changes.

HKFRS 1 (Revised) is effective for entities applying HKFRSs for the first time for annual periods beginning on or after 1 July 2009. Earlier application is permitted.

## 6. Invitation to Comment on IASB Draft Pronouncements

- (i) Exposure Draft (“ED”) of *Proposed Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives*

The Institute has issued an **Invitation to Comment** on IASB ED of *Proposed Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives*, with comments requested by 13 January 2009.

Following the issue of *Reclassification of Financial Assets (Amendments to IAS 39 and IFRS 7 Financial Instruments: Disclosures)* in October 2008, the IASB was asked to consider amending IFRSs to prevent any diversity in practice from developing as a result of the reclassification of a financial asset. This ED seeks to clarify the application of that amendment to embedded derivatives and would require:

- an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category;
- the assessment to be made on the basis of the circumstances that existed

when the entity first became a party to the contract; and

- the entire hybrid financial instrument must remain in the fair value through profit or loss category, if the fair value of an embedded derivative that would have to be separated cannot be reliably measured.

The IASB proposes an effective date for annual periods ending on or after 15 December 2008 so as to ensure appropriate separation of embedded derivatives on reclassification of hybrid (combined) financial assets out of the fair value through profit or loss category.

- (ii) ED of *Proposed Amendments to IFRS 7 – Investments in Debt Instruments*

The Institute has issued an **Invitation to Comment** on IASB ED of *Proposed Amendments to IFRS 7 – Investments in Debt Instruments*, with comments requested by 13 January 2009.

In response to the global financial crisis and discussions in a series of public round-table meetings on this issue, the IASB proposes additional disclosure requirements for all investments in debt instruments other than those classified as at fair value through profit or loss. The proposals are to require:

- information in tabular format about the effect on pre-tax profit or loss as if these instruments were accounted for (i) at fair value and (ii) at amortised cost; and
- a summary of the different measurement bases of these instruments in tabular format that sets out (i) the measurement as in the statement of financial position (ii) fair value and (iii) amortised cost.

The US FASB is making similar disclosure proposals.

The IASB proposes an effective date of annual periods ending on or after 15 December 2008. Comparative information relating to periods before the date of initial adoption is not required.

## 7. Institute Comments on IASB Exposure Draft of Proposed Amendments to IFRS 7

The ED of Proposed Amendments to IFRS 7 *Improving Disclosures about Financial Instruments* forms part of the IASB's response to the credit crisis and proposes:

- to enhance disclosures about fair value measures, particularly for those that use the most subjective inputs; and
- to improve disclosures about liquidity risk to address diversity in the interpretation of these disclosure requirements, including proposing quantitative disclosures for derivative liabilities based on how liquidity risk is actually managed.

The **Institute's submission**:

- supports the idea of requiring entities to disclose the fair value of financial instruments using a fair value hierarchy. However, the Institute does not agree with the proposed disclosures based on a three-level fair value hierarchy as set out in the ED, given that they are not consistent with the existing fair value hierarchy in IAS 39 *Financial Instruments: Recognition and Measurement*,
- suggests that disclosures should be required only for those assets and liabilities measured in fair value based on valuation techniques at the end of the reporting period;
- supports the proposal to strengthen the relationship between the quantitative and qualitative disclosures about liquidity risk; and
- believes that disclosure of information based on how an entity manages the liquidity risk can assist a user's assessment of the financial position and financial performance of an entity, or of the amount, timing and uncertainty of its future cash flows.

## 8. Tokyo Round Table Meeting on the Global Financial Crisis

Representatives from the Institute attended the Tokyo Round Table meeting on global financial crisis on 3 December 2008. The

meeting provided an opportunity for the members of the IASB and FASB (collectively, "the Boards") to hear input from a wide range of stakeholders including users, preparers, and auditors of financial statements, regulators and others.

This assisted the Boards to identify accounting issues that may require their urgent and immediate attention to improve financial reporting and enhance investor confidence in financial markets.

Participants submitted various issues for discussion such as impairment issues, fair value measurement, reclassification of financial instruments measured under the fair value option and other issues.

Click here for the meeting [summary](#) and the [participants' full submissions](#), which includes the Institute's submission.

## 9. FRSC Meeting Summary – 7 November 2008

This [FRSC meeting summary](#) covers:

- Invitation to Comment on IASB EDs and Discussion Paper
- IASB ED of Proposed Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- HKICPA Consultation Paper – Financial Reporting by Private Companies
- Amendments to HKAS 39 and HKFRS 7 – Reclassification of Financial Assets
- Report on meeting with Mr. Wayne Upton, IASB Director of International Activities
- Report on China, Japan and Korea Accounting Standard Setters' Meeting
- National Standard Setters Conference Call on 7 November 2008

## Audit & Assurance

### 10. AASC Meeting Summary – 21 October 2008

This [AASC meeting summary](#) covers:

- Adoption of New IAASB Pronouncements
- Endorsement of New Revised and Redrafted HKSAs
- Annual Auditing Update Conference 2008

## Corporate Finance

### 11. Exchange Announces Consultation Conclusions and Listing Rules Changes

In late November 2008, Hong Kong Exchanges and Clearing Limited (“HKEx”) **announced** the publication of **consultation conclusions** on the proposals contained in the combined consultation paper, issued in early 2008. HKEx also released a list of specific amendments to the existing main board and Growth Enterprise Market (“GEM”) listing rules to implement the proposals. Most of the changes took effect on 1 January 2009.

The Institute’s submission in response to the combined consultation paper was reported in [TechWatch No. 67](#).

The conclusions present the results of 15 out of the 18 substantive policy issues on which proposals were made. According to HKEx, the remaining three issues, namely, public float, general mandates and self-constructed fixed-assets, are still being assessed and separate conclusions will be published later.

Notwithstanding the objections of the Institute and, overall, of around one third of respondents, HKEx indicated that there was majority support for removing the requirement under the Listing Rules for a “qualified accountant” to be employed at senior level in the management, and this change has now gone ahead.

Nevertheless, under the Code on Corporate Governance Practices (which is an appendix to the main board and GEM listing rules) the board’s annual review of the effectiveness of the system of internal control, is now required to consider the adequacy of resources, qualifications and experience of staff of the issuer’s accounting and financial reporting

function, and their training programmes and budget.

The minimum terms of reference of the audit committee have also been expanded to require the audit committee to make sure that the management has properly discharged the foregoing duty. While not being as clear cut as the requirement for a qualified accountant, this should still create a strong incentive for listed companies to ensure that someone of suitable standing, qualifications and experience is responsible for overseeing the financial reporting and accounting functions within the management. Members of the Institute would remain the obvious choice.

Amongst the other listing rule changes, it looks likely that HKEx will also proceed to extend the “black out” period, during which directors may not deal in their company’s shares. While the conclusions indicate that a substantial number of respondents supported this proposal, there has been a negative reaction from some of the business sector since the publication of the conclusions and it has recently been announced that the implementation date will be deferred until 1 April 2009. Assuming the change goes ahead, the extended black out period will run from the commencement of the financial period end date and end upon the publication of the relevant results announcement.

## Corporate Governance

### 12. Translation of IFAC International Good Practice Guidance Published

The guide “Defining and Developing an Effective Code of Conduct for Organizations”, originally produced by IFAC, and subsequently released in Hong Kong with a local foreword produced by the Institute, HKEx and the Hong Kong Institute of Directors, has been translated into Chinese for wider circulation. The Chinese version has also been endorsed by the Hong Kong Ethics Development Centre, ICAC, whose name has been added to those of the above three bodies on the document. Click [here](#) for the Chinese version of the guide.

## Professional Accountants in Business

### 13. IFAC Invites PAIBs Worldwide to Select the 2008 “Article of Merit” Award Winner

Ten articles focused on the following topics have been identified from those published by IFAC’s

158 member bodies and associates relating to financial and management accounting:

- Outsourcing the finance and accounting function
- Measuring board performance
- Analysing mergers and acquisitions
- Managing strategic risk
- Planning multi-year strategies
- Achieving employee alignment and motivation

This is the first time that individual professional accountants in business ("PAIBs") worldwide have been invited by the IFAC PAIB Committee to help in the selection process. Members may find that these articles contain some relevant and useful references for their business.

Click [here](#) to view and rate these articles by **11 January 2009**. The winning article will be announced in early 2009.

## Restructuring & Insolvency

### 14. Technical Paper Examines and Compares Cross-Border Avoidance Provisions

INSOL International ("International Association of Restructuring, Insolvency & Bankruptcy Professionals") has recently issued a [technical paper](#) entitled "Avoidance Provisions in a Local and Cross-border Context: A Comparative Overview", written by Professor André Boraine, Professor of Law, University of Pretoria, South Africa.

The paper provides a comparison of the law regulating transactions entered into prior to bankruptcy in a number of jurisdictions: England and the USA reflecting the common law approach; the Netherlands and Germany representing civil law jurisdictions; and South Africa and India (former British colonies) representing emerging markets.

The author concludes that, despite the differences in the legal system in the various jurisdictions considered in this paper, the concept of avoidable transactions shares certain core characteristics across the different jurisdictions.

## Taxation

### 15. Institute Submits Budget Proposals 2009/10 to the Financial Secretary

The Institute submitted a set of proposals for the 2009/10 budget to the Financial Secretary on 16 December 2008. The Institute's taxation committee chair, Mr. David Southwood, and the budget proposals 2009/10 sub-committee convenor, Ms. Florence Chan, explained the proposals to the media at a [briefing](#) held on the same day. The title of this year's [submission](#) is "*Turning challenges into opportunities*".

In view of the needs of the community for additional support during the economic downturn, and the importance of securing Hong Kong's longer-term competitiveness, the Institute recommends, among other proposals:

- Granting a 75 percent reduction of 2008/09 final tax for salaries tax, profits tax, property tax and tax under personal assessment, subject to a ceiling of \$25,000 for each type of tax
- Reducing the first three progressive rates under salaries tax to 1 percent, 5 percent and 9 percent (compared with the current rates of 2 percent, 7 percent and 12 percent, respectively), introducing a new fourth rate of 13 percent and retaining the existing top rate of 17 percent
- Allowing unused self-education expenses incurred in any year to be carried forward for one year
- Increasing a range of salaries tax allowances for dependent family members and disabled dependants
- Allowing deductions for contributions to private medical insurance policies up to a ceiling of \$12,000.
- Treating redundancy and severance payments of up to twice the current statutory thresholds as automatically non-taxable
- Waiving rates on tenements up to a ceiling of \$5,000 per quarter, and subsidising electricity bills to the tune of \$150 per month
- Codifying the source of profit and employment income

- Introducing loss carry-back provisions and group loss relief
- Introducing measures to give further support to Hong Kong's "pillar industries", namely financial services, logistics, tourism and professional and producer services, as well as another key sector, the property sector
- Improving the environment through more coordinated measures
- Strengthening corporate governance and financial regulation

For more details, please refer to the [summary](#) of the proposals.

### Legislation & Other Initiatives

## 16. Conclusions on Second Consultation on Companies Ordinance Rewrite

On 10 December 2008, the government released [consultation conclusions](#) on the Companies Ordinance ("CO") Rewrite second consultation, which was conducted earlier this year, covering proposals in relation to company names, corporate directors and the registration of charges. The Institute's submission on the consultation paper was reported in [TechWatch No. 70](#).

As a result of the consultation, the following are amongst the key recommendations that the government proposes to adopt:

#### Company names

- The Registrar of Companies should be empowered to act upon a court order directing a defendant company to change its infringing name, and substitute its infringing name with its registration number if the company fails to comply with the Registrar's direction to do so.
- "Hybrid names" (except those with phrases like "X光" and "卡拉OK") will continue to be disallowed.

#### Directors' duties

- Directors' duties of care, skill and diligence should be codified so as to clarify the law in this respect. The fiduciary duties of directors should remain uncodified.

#### Corporate directorship

- Corporate directorships will continue to be allowed in private companies. However, after a grace period, every company must have at least one director who is an individual.

#### Registration of charges

- Some amendments will be made to registration procedure. The instrument of charge, together with some prescribed particulars, will be registrable and will be open for public inspection. While the Registrar of Companies ("R of C") may issue a certificate to confirm that the prescribed particulars and the instrument of charge have been delivered to the Registry, R of C will no longer issue a certificate of due registration and the period for registration will be shortened to 21 days.
- The Financial Services and the Treasury Bureau has indicated that the final recommendations will be incorporated into a Companies Bill ("CB") to be issued in the form of a draft bill for further public consultation around mid-2009, with the aim of introducing the CB into the Legislative Council by the third quarter of 2010.

## 17. Companies Registry's Sample Forms

The Companies Registry has prepared the following sample forms to assist companies in completing the relevant forms:

- **DR1: Application for deregistration of a defunct private company**
- **NC1G: Incorporation Form (Company not limited by shares)**
- **NC2: Notification of change of company name**
- **N1: Particulars of a non-Hong Kong company registered in Hong Kong**
- **N10: Notification of change in the corporate name of a non-Hong Kong company**
- **M1: Mortgage or charge details (Charge on landed property and Charge on deposits)**

## 18. Companies Registry Specified Forms

The Companies Registry has reminded users that, with effect from 1 January 2009, it will no longer accept for filing the old Forms AR1, AR2, AR3, D6, N3 and N4 and will accept only the revised versions of the forms, as specified for use from 11 July 2008. For details, please refer to [Companies Registry External Circular No. 3/2008](#).

### International Meetings

## 19. International Accounting Standards Board

The IASB met in London on 15-19 December 2008 and discussed the following topics:

- Global financial crisis
- Annual improvements
- Conceptual framework
- First time adoption of IFRSs
- IFRS for private entities
- Liabilities – amendments to IAS 37
- Rate-regulated activities
- Share-based payment

Click [here](#) to view the December IASB Update. The IASB next meets on 19-23 January 2009.

## 20. International Financial Reporting Interpretations Committee

The meeting of the IFRIC scheduled for 8 and 9 January 2009 has been cancelled. Click [here](#) to view the announcement.

## 21. International Auditing and Assurance Standards Board

The IAASB will meet in New York, United States, from 16-19 March 2009. Click [here](#) for the registration for the March 2009 meeting, the background papers and the meeting summary of the December 2008 meeting in Belgium.

## 22. International Ethics Standards Board for Accountants

The IESBA will meet in San Francisco, United States, from 23-25 February 2009. Click [here](#) for the background papers and the meeting summary of the December 2008 meeting in London.

### For Information

## 23. Standing Committee on Company Law Reform Publishes 2007/08 Annual Report

The Standing Committee on Company Law Reform ("SCCLR") has **published** its twenty-fourth **annual report**. The annual report covers subjects considered by the SCCLR between 1 April 2007 to 31 March 2008, including the Rewrite of the Companies Ordinance.

### New Publications

## 24. New Books in the Library

**Featured titles** and **new books** of high reference value for members are now available in the library.

## 25. Other Publications

The following are publications on various topics:

- (i) Reclassification of financial assets – effective date and transition:
  - [IFRS briefing sheet](#) by KPMG
- (ii) Distributions of non-cash assets to owners:
  - [IAS plus](#) by Deloitte
  - [IFRS briefing sheet](#) by KPMG
- (iii) IASB and FASB 2008 round table meetings:
  - [IFRS briefing sheet](#) by KPMG
- (iv) [International GAAP disclosure checklist](#) by Ernst & Young
- (v) [An update for directors of listed companies: Going concern and liquidity risk](#) by UK Financial Reporting Council ("FRC")



## Financial Crisis Database

### 26. Upcoming CPD Events

- **7 April 2009: TUE 905: Challenges in Auditing Fair Value Accounting Estimates - HKSA 545 Auditing Fair Value Measurements and Disclosures**
- **20 January 2009: Joint Seminar on PN 820 – The Audit of Licensed Corporations and Associated Entities of Intermediaries**

### 27. List of Archived Resources

- (i) A Plus
  - December 2008: **Bust and boom – What will the financial crisis bring the accounting profession and how will it change the regulatory environment?**
  - November 2008: **A brief history of the financial meltdown so far...**
- (ii) HKICPA, October 2008: **Question and answer on reclassification of financial assets for general guidance**
- (iii) UK FRC Press notices, 27 November 2008: **FRC alerts directors to the corporate reporting challenges arising from current economic conditions**
- (iv) IASB, October 2008:
  - **Report on measuring and disclosing the fair value of financial instruments in markets that are no longer active**
  - **IASB staff summary on using judgement to measure the fair value of financial instruments when markets are no longer active**
- (v) IFAC-IAASB Staff Audit Practice Alert, October 2008: **Challenges in auditing fair value accounting estimates in the current market environment**

- (vi) National Standard Setters, 14 November 2008: **Communiqué from Members of the National Standard Setters Group to the International Accounting Standards Board and the Trustees of the IASC Foundation**
- (vii) René Ricol, September 2008, **Report on the financial crisis**
- (viii) AccountancyAge.com
  - 17 November 2008: **G20 asks standard setter to promote financial stability**
  - 11 November 2008: **Tweedie nearly quit after fair value change**
  - 21 October 2008: **IFAC opposes any suspension of fair value**
- (ix) BBC News, 28 October 2008: **World credit loss “£1.8 trillion”**
- (x) CFO.com, 17 September 2008: **Tweedie: Don't blame fair value for the crisis**

## Comment Due Dates

### 13 January 2009:

- IASB ED of *Proposed Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives*
- IASB ED of *Proposed Amendments to IFRS 7 – Investments in Debt Instruments*

### 13 March 2009: Discussion Paper (“DP”) on *Financial Statement Presentation*

Please send comments to  
< [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk) >