



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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Financial Reporting, Auditing and Ethics by:
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Specialist Practices, Business Members and Advocacy by:
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Financial Reporting, Auditing and Ethics

New!

1. Free Seminars to Support Members in Economic Downturn

The global financial crisis has a significant impact on the world economy and Hong Kong professionals. The Institute aims to support members and is holding a series of free technical seminars including HKFRSs year end update, alert on going concern and liquidity risk – HKSA 570 *Going Concern*, fair value accounting and the financial tsunami, so that members can better serve their clients and increase their competitiveness.

To secure seats, please register early by completing the [registration form](#).

2. Ethics Seminars

The Institute will hold two Ethics Seminars in May 2009.

- (i) Professional Ethics for Accountants - 11 May 2009

Professional Ethics for Accountants will introduce the origins and background of ethics. It will describe how business ethics is a special case of ethics and its application to professional ethics. It is a broad topic, not to cover everything in depth, but intended to give an integrated background and understanding of the current evolving trends in business and professional ethics.

- (ii) Code of Ethics for Professional Accountants (Hong Kong and PRC Requirements Explained) - 18 May 2009

Code of Ethics for Professional Accountants (Hong Kong and PRC Requirements Explained) will explain the key requirements of both the HKICPA Code of Ethics and the proposed CICPA Code of Ethics, including:

- The mechanics of applying the “Threats and Safeguards” approach in dealing with auditor independence issues.
- The significance and implications to auditors when they are a member of a “network of firms”.
- The more important professional ethics requirements for Practitioners and Professional Accountants in Business, which are likely to have significant impact on their professional behaviour at work.

To secure seats, please register early by completing the [registration form](#).

3. Forum on “New Arrangement of Engaging a CPA (Practising) under the Hong Kong Immigration Department’s Capital Investment Entrant Scheme”

On 13 March 2009, the Hong Kong Immigration Department introduced a new Capital Investment Entrant Scheme (“Scheme”) to shorten the processing time for applications submitted under the Scheme.

An Immigration Officer (Other Visas and Permits Section) will explain the Scheme and answer questions from members.

To secure seats, please register early by completing the [registration form](#).

Financial Reporting

4. HKFRS Insights on Amendments to HKFRS 7 *Financial Instruments: Disclosures-Improving Disclosure about Financial Instruments*

Amendments to HKFRS 7 form part of the focused response to the financial crisis and address the G20 conclusions aimed at improved transparency and enhanced accounting guidance. The improvements also reflect discussions on measuring and disclosing fair values of financial instruments when markets are no longer active.

These amendments introduce a three-level hierarchy for fair value measurement disclosures. It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements.

In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. This is to ensure that the disclosures enable users of an entity's financial statements to evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity manages that risk.

The amendments to HKFRS 7 apply for annual periods beginning on or after 1 January 2009. An entity will not be required to provide comparative disclosures in the first year of application.

For practical guidance on fair value disclosures and liquidity risk disclosures, members may refer to:

- **IFRS 7 amended to improve disclosures about financial instruments** (March 2009) by Deloitte
- **Amendments to IFRS 7** (March 2009) by Ernst & Young
- **Improving disclosures about financial instruments – Amendments to IFRS 7 financial instruments: Disclosures** (March 2009) by KPMG

5. HKFRSs Update

The Institute has updated a [list](#) of new and amended standards and interpretations that are:

- Applicable to December 2008 year-end
- Applicable to December 2009 year-end
- Effective subsequent to December 2009 year-end

6. Invitation to Comment on IASB Discussion Paper and Exposure Drafts

- (i) IASB Discussion Paper (“DP”) on *Preliminary Views on Leases*

The Institute has issued an **Invitation to Comment** on IASB DP on *Preliminary Views on Leases*, with comments requested by 3 July 2009.

Lease accounting under US GAAP and IFRSs is often criticized as being too reliant on bright lines and subjective judgements. In this DP, the IASB and FASB (the boards) discuss a possible new approach to lease accounting.

The boards propose that lease accounting should be based on the principle that all leases give rise to liabilities for future rental payments and assets (the right to use the leased asset) should be recognized in an entity's statement of financial position. This approach is to ensure that leases are accounted for consistently across sectors and industries.

A summary prepared by the IASB on the DP is set out in the Appendix to the Invitation to Comment.

- (ii) IASB Exposure Draft (“ED”) of *Income Tax*

The Institute has issued an **Invitation to Comment** on IASB ED of *Income Tax* with comments requested by 10 July 2009.

This ED proposes to replace IAS 12 *Income Tax* with a new standard on income tax, but retain the temporary difference approach for deferred taxes. The objective is to recognize the future tax consequences of past events and transactions now, rather than waiting until the tax is payable.

Although the proposed standard retains the same principle, the IASB proposes to remove most of the exception in IAS 12, to simplify the accounting and strengthen the principle in the standard. In addition, the IASB proposes a change in structure to make the standard easier to use.

A summary of the significant changes to IAS 12 is set out in the Appendix to the Invitation to Comment.

(iii) IASB ED of *Proposed Amendments to IAS 39 and IFRS 7 – Derecognition*

The Institute has issued an **Invitation to Comment** on IASB ED of *Proposed Amendments to IAS 39 and IFRS 7 – Derecognition* with comments requested by 10 July 2009.

The objective of this ED is to improve the derecognition requirements for financial instruments and also to enhance disclosure requirements, especially in situations where an entity continues to have an ongoing involvement in a financial asset that would be derecognized under the proposals. The additional disclosures would allow users to make a better assessment of the risks associated with such an asset.

A summary prepared by the IASB on the ED is set out in the Appendix to the Invitation to Comment.

7. Institute Responses to IASB Draft Pronouncements

(i) IASB-US FASB Financial Crisis Advisory Group

The Institute's **response** to the IASB and FASB on accounting and reporting matters related to the financial crisis assisted discussion by the Financial Crisis Advisory Group at its April 2009 meeting, which thereon made recommendations to the IASB and FASB.

(ii) IASB DP on *Preliminary Views on Financial Statement Presentation*

The Institute has various concerns with the approach of this DP in general and several proposals in particular. The main concerns are as follows:

- Although the Institute agrees that the cohesiveness principle on which the proposals are based provides a sound conceptual approach to presentation and facilitates understanding by users, the Institute is concerned that the implementation of the cohesiveness principle in the DP is not done in a pragmatic way.
- The Institute is not convinced that the option to prepare an indirect method cash flow statement should be eliminated.
- The Institute disagrees with requiring a reconciliation schedule.
- The proposals in this DP would require significant changes to existing financial systems with commentators questioning whether the benefits would outweigh the significant costs.

Click [here](#) to view the Institute's submission.

(iii) IASB Request for views – FASB Proposals on Fair Value Measurement and Impairments of Financial Instruments

The proposed form of draft staff positions 157-e introduces a presumption that quoted prices in inactive markets reflect distressed transactions unless proven otherwise. The Institute does not support this presumption because it is believed that in many cases, under current market condition, observable transaction prices in inactive markets are depressed not because transactions involved a distressed party, but because of the uncertainty in the markets and increased risk premiums for illiquidity.

Regarding the recognition and presentation of other-than-temporary impairment, currently there are differences regarding impairment triggers, measurement of impairment losses, and reversals of impairment losses between IFRS and US GAAP. With a view to improving the reporting of impairment loss of financial instruments, the Institute highly recommends that efforts should be placed to

develop a consistent model under the comprehensive project undertaken with the FASB.

Click [here](#) to view the Institute's submission.

8. International Financial Reporting Standards Regional Policy Forum

Representatives of the Institute attended the 2009 IFRS Regional Policy Forum, which was hosted by the Ministry of Finance of the People's Republic of China in Beijing on 16 April 2009. The forum covered the following:

- The relationship of the global financial crisis and the financial reporting framework;
- The actions taken by jurisdictions in the region in response to the financial crisis;
- The international convergence and regional influence in the international standards setting environment; and
- Financial reporting requirements for non-publicly accountable entities and progress in extensible Business Reporting Language.

Click [here](#) to view the Communiqué.

9. Preparatory Meeting of the Asian-Oceanian Standards Setters Group

Representatives of the Institute attended the preparatory meeting of the Asian-Oceanian Standards Setters Group ("AOSSG") in Beijing on 17 April 2009.

The participants discussed issues related to the:

- Establishment of the AOSSG,
- Promotion of the convergence with the IFRSs,
- Support of the IASB's effort to establish a single set of high quality global accounting standards in Asia Pacific Region, and

- Improvement of the consistency and comparability of the financial reporting standards in PRC.

The participants agreed that the first meeting of the AOSSG would be held by Malaysia in November 2009.

Click [here](#) to view the Communiqué.

10. Global Accounting Alliance Asian Roundtable

More than 50 delegates from the region including standard setters, government representatives and major accounting firms attended the Global Accounting Alliance ("GAA") Asian roundtable on 17 April 2009 in Beijing. The panel, including IASB Chairman Sir David Tweedie, discussed the GAA's research into principles versus rules for accounting standards and how to reduce complexity in financial reporting.

Click [here](#) to view the GAA's research.

International Meetings

11. International Accounting Standards Board

The IASB met in April 2009 and discussed the following topics:

- Global financial crisis
- Discontinued operations
- Earnings per share
- First-time adoption of IFRSs
- IFRS for small and medium-sized entities
- Insurance contracts
- Liabilities (amendments to IAS 37)
- Management commentary
- Post-employment benefits
- Rate-regulated activities

- Share-based payment
- Technical plan

Click [here](#) to view the April IASB Update. The IASB next meets in May 2009.

12. International Financial Reporting Interpretations Committee

The IFRIC next meets in May 2009. Click [here](#) for the next meeting's details.

13. International Auditing and Assurance Standards Board

The IAASB next meets in June 2009. Click [here](#) for the next meeting's details and previous meeting summary.

14. International Ethics Standards Board for Accountants

The IESBA next meets in October 2009. Click [here](#) for the next meeting's details and previous meeting summary.

Useful Resources

15. Publications

The following are publications on various topics:

- (i) Interim reporting:
 - [Guide](#) and [checklist](#) by the Deloitte
- (ii) Debt or equity:
 - [IFRS outlook](#) by Ernst & Young
 - [HKFRS news](#) by PwC
- (iii) G20's implications on financial reporting:
 - [IAS plus](#) by Deloitte
 - [IFRS briefing sheet](#) by KPMG
- (iv) Improving disclosures about financial instruments
 - [Supplement to IFRS outlook](#) by Ernst & Young
- (v) Reclassification of financial assets
 - [Supplement to IFRS outlook](#) by Ernst & Young
- (vi) US FASB staff positions
 - [Heads up](#) by Deloitte
 - [Supplement to IFRS outlook](#) by Ernst & Young
 - [Defining issues](#) by KPMG

Comment Due Dates

22 May 2009: IASB Discussion Paper on Preliminary Views on *Revenue Recognition in Contracts with Customers*

3 July 2009: IASB Discussion Paper on *Preliminary Views on Leases*

10 July 2009: IASB Exposure Draft of *Income Tax*

10 July 2009: IASB Exposure Draft of *Proposed Amendments to IAS 39 and IFRS 7 – Derecognition*

Specialist Practices, Business Members, and Advocacy

New!

16. Institute Hosts IFAC PAIBC Meeting and Joint Forum on Risk Management

The Institute was pleased to host a meeting of IFAC's Professional Accountants in Business Committee on 23-24 April 2009. The committee, on which the Institute is represented, is engaged in a number of useful projects that will benefit PAIBs worldwide, such as the sustainability framework (see the following item). During the committee's stay in Hong Kong, the Institute took the opportunity to organize a members' forum jointly with the IFAC PAIBC, on corporate governance, risk management and internal controls, which was attended by around 130 participants.

Click [here](#) for the opening speeches by the Institute's president and the IFAC PAIBC chair at the forum.

Professional Accountants in Business

17. Accountants Worldwide Promote Sustainability

In addition to launching a **Sustainability Framework** to help professional accountants integrate sustainability into their organization's objectives, strategies, management, and definitions of success, IFAC's latest **eNews** is a special issue on sustainability, which covers other developments from around the world.

Taxation

18. IRD Issues DIPN45

On 30 April 2009, the IRD issued **Departmental Interpretation and Practice Notes No. 45** ("DIPN45"), "Relief from double taxation due to transfer pricing or profit reallocation adjustments". DIPN45:

- Explains how relief from double taxation due to transfer pricing and profit reallocation adjustments should be provided.
- Addresses issues relating to economic double taxation and juridical double taxation.
- Covers situations where the Hong Kong SAR does not have a double taxation agreement with the relevant overseas tax jurisdiction.
- Further explains the mutual agreement procedure in the context of providing double taxation relief.

Legislation & Other Initiatives

19. Enhancements to Companies Registry Electronic Search Services

An "Online View" function is now available to search for document images at the Companies Registry's **Cyber Search Centre**. Customers can view images online, in PDF format, after payment of **search fees**. The images will be kept in the download area for seven days for subsequent retrieval.

20. New Companies Registry Information Pamphlets

The following information pamphlets are now available:

- [Registration of a trust company](#)
- [Registration of a limited partnership](#)

21. Combating Money Laundering/Terrorist 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 2153**: 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”.

Useful Resources

22. New Books in the Library

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

23. Other Publications

The following publications on current topics may be of interest to members:

- (i) Business survival:
 - **Succeeding in turbulent times**: A guide to navigating business survival in an uncertain and unfamiliar economic environment by KPMG International
- (ii) Change of intention from property investment to trading and its tax implication:
 - **Hong Kong tax alert** by Ernst & Young