



# 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.

## Contents

### Financial Reporting, Auditing and Ethics

#### New!

1. First Asian-Oceanian Standard-Setters Group Meeting
2. Financial Reporting Forum on HKFRS 9 & IASB ED of *Financial Instruments: Amortised Cost and Impairment*

#### Members' Handbook

3. Updates No. 72 & No. 73

#### Financial Reporting

4. HKFRS Insights on Investment Property Under Construction
5. FRSC Minutes
6. Invitation to Comments on Exposure Drafts
7. Institute Comments on IASB Exposure Drafts
8. Q&A on Amendments to HKAS 17 *Leases* – Classification of Leases of Land and Building

#### International Meetings

9. IASB
10. IFRIC
11. IAASB
12. IESBA

#### Useful Resources

13. Publications

#### Comment Due Dates

### Specialist Practices, Business Members and Advocacy

#### Corporate Finance

14. Institute Comments on Proposed Changes to Circulars and Listing Documents

#### Taxation

15. Inland Revenue Department Issues New/ Revised Practice Notes Nos. 46 and 21
16. New Commissioner of Inland Revenue Appointed

#### Professional Accountants in Business

17. Results of the 2009 Best Corporate Governance Disclosure Awards

#### Legislation & Other Initiatives

18. Consultation Conclusions on the Operation of the Deposit Protection Scheme
19. Combating Money Laundering/Terrorist Financing

#### Useful Resources

20. New SFC Guide for the Investing Public
21. Standing Committee on Company Law Reform 2008-09 Annual Report
22. New Books in the Library
23. Other Publications

*Financial Reporting, Auditing and Ethics* by:  
Steve Ong (Editor), Selene Ho, Winnie Chan, Katherine Leung, Ben Lo

*Specialist Practices, Business Members and Advocacy* by:  
Peter Tisman (Editor), Elena Chai, Mary Lam, Sharon Yeung

## Financial Reporting, Auditing and Ethics

### New!

#### 1. First Asian-Oceanian Standard-Setters Group Meeting

On 4 & 5 November 2009, the first meeting of the Asian-Oceanian Standard-Setters Group (“AOSSG”) was held in Malaysia. The meeting was hosted by the Malaysian Accounting Standards Board, with a total of 100 participants from 21 standard-setting bodies of the Asia and Oceania regions. Amongst the participants were the IASB Chairman Sir David Tweedie and the Institute’s president Paul F. Winkelmann.

The AOSSG members agreed that Malaysia be appointed as the first chairman of AOSSG and Japan be appointed as the vice chairman. They also signed a memorandum of understanding to promote convergence of IFRSs in the region.

Click [here](#) for the post event press communiqué, which summarises the details of the discussion.

#### 2. Financial Reporting Forum on HKFRS 9 & IASB ED of *Financial Instruments: Amortised Cost and Impairment*

The Institute will hold a Financial Reporting Forum on HKFRS 9 *Financial Instruments* and IASB Exposure Draft (“ED”) of *Financial Instruments: Amortised Cost and Impairment* on 15 December 2009 for preparers and auditors of financial statements and others interested in financial reporting.

This forum will explain the key changes to HKAS 39 *Financial Instruments: Recognition and Measurement* under the newly issued HKFRS 9 and the potential implications of the ED of *Financial Instruments: Amortised Cost and Impairment*. Details of HKFRS 9 and the ED are set out in the “Members Handbook” section and the “Financial Reporting” section below, respectively.

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

### Members’ Handbook

#### 3. Updates No. 72 & No. 73

- (i) **Update No. 72** contains amendments to HKAS 24 (Revised) *Related Party Disclosures*.

HKAS 24 requires entities to disclose in their financial statements information about transactions with related parties. In broad terms, two parties are related to each other if one party controls, or significantly influences, the other party.

HKAS 24 has been revised in response to concerns that the previous disclosure requirements and the definition of a ‘related party’ were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns. It simplifies the disclosure requirements for government-related entities by providing a partial exemption for such entities and clarifies the definition of a related party.

The revised HKAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.

- (ii) **Update No. 73** contains HKFRS 9 *Financial Instruments*.

The issuance of HKFRS 9 represents the completion of the first part of a three-part project to replace HKAS 39. Proposals addressing the second part, the impairment methodology for financial assets, were published for public comment at the beginning of November, while proposals on the third part, on hedge accounting, continue to be developed.

HKFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in HKAS 39. The approach in HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the

contractual cash flow characteristics of the financial assets.

The effective date of HKFRS 9 is for annual periods beginning on or after 1 January 2013, with early adoption permitted.

## Financial Reporting

### 4. HKFRS Insights on Investment Property Under Construction

The Institute made an amendment to HKAS 40 *Investment Property* in 2008, as part of the *Improvements to HKFRSs 2008*, that affects the accounting treatment for property under construction or development for future use as investment property (referred to as “investment property under construction”).

The major changes in the amendment to HKAS 40 are:

- Investment property under construction is within the scope of HKAS 40 while it previously fell within the scope of HKAS 16 *Property, Plant and Equipment*.
- Entity is given a choice to measure the investment property either using the fair value model or cost model. Where the fair value model is applied, the investment property under construction is, therefore, measured at fair value.
- Where fair value of investment property under construction is not reliably determinable, the property is measured at cost until the earlier of the date when construction is completed or the date at which fair value becomes reliably determinable.

This amendment is to be applied prospectively for annual periods beginning on or after 1 January 2009.

For practical guide of accounting for investment property under construction, please refer to:

- [Practical guide](#) by Ernst & Young
- [Practical guide](#) by Deloitte

### 5. FRSC Minutes

This [FRSC minutes](#) on 10 November 2009 covers:

- IFRS for SMEs
- Guidance on the application of Amendments to IAS 17 *Leases* in the Annual Improvements to IFRS 2009
- Guidance on the Determination of Realized Profits and Losses in the Context of Distributions under the HK Companies Ordinance
- Draft letter to the IASB on resolving the deferred taxation issue related to revaluation of investment properties
- Draft submissions on IASB Exposure Drafts
- Roundtable on the Constitution Review Part 2 in Tokyo
- Submission on IASB ED *Fair Value Measurement*
- Amendments to HKAS 32 – *Rights Issues*
- Asian IASB Roundtable on Fair Value Measurement
- Revised HKAS 24 – *Related Party Disclosures*
- Update on requests for IFRIC interpretation
- Report on Asian-Oceanian Standard-Setters Group meeting in Malaysia

### 6. Invitation to Comments on Exposure Drafts

- (i) IASB ED of *Financial Instruments: Amortised Cost and Impairment*

The Institute has issued an [Invitation to Comment](#) on the above IASB ED, with comments requested by 7 June 2010.

Both IFRSs and US GAAP currently use an incurred loss model for the impairment of financial assets. The global financial crisis has led to criticism of the incurred loss model for presenting an initial, over-optimistic assessment of no credit losses, only to be followed by a large adjustment once a trigger event occurs.

Responding to requests by the G20 leaders and others, the IASB published a Request for Information on the practicalities of moving to an expected loss model in June 2009 and the IASB has taken into account its responses in developing the ED.

Under the proposals, expected losses are recognised throughout the life of the loan (or other financial asset measured at amortised cost), and not just after a loss event has been identified. This would avoid the front-loading of interest revenue that occurs today before a loss event is identified, and would better reflect the lending decision. Therefore, under the proposals, a provision against credit losses would be built up over the life of the financial asset. Extensive disclosure requirements would provide investors with an understanding of the loss estimates that an entity judges necessary.

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

- (ii) IASB ED of *Proposed Amendment to IFRS 1 – Limited Exemption From Comparative IFRS 7 Disclosures for First-time Adopters*

The Institute has issued an [Invitation to Comment](#) on the above IASB ED, with comments requested by 21 December 2009.

The ED proposes amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* that would provide first-time adopters with the same relief available to those already applying IFRSs when they first apply *Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)* issued in March 2009.

- (iii) ED of PN 610 *Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance*

The Institute has issued an [Invitation to Comment](#) on the above ED, with comments requested by 29 January 2010.

Limited liability companies incorporated under the Hong Kong Companies Ordinance ("CO") are only permitted to make distributions out of their net accumulated realised profits. Underlying the distribution rules is the concept of "realised" profits and losses, as set out in Section 79A(3)(b) of the CO. In particular, "realised profits" in relation to a company's accounts is defined as those that fall to be treated as realised for the purposes of those accounts in accordance with principles generally accepted with respect to the determination for accounting purposes of realised profits at the time when those accounts are prepared.

At present, HKFRS, which was fully converged with IFRS on 1 January 2005, does not contain any explicit "principles generally accepted with respect to the determination for accounting purposes of "realised profits" and it is implicitly clear that the HKFRS concept of income recognition in the income statement is unrelated to the concept of realisation. There has been lack of guidance for determination of such "realised profit".

Accordingly, the Institute has produced the ED on PN 610 with the purpose to provide guidance to identifying, interpreting and applying the principles relating to the determination of realised profits and losses for the purposes of making distributions under the CO. With the permission by the Institute of Chartered Accountants in England and Wales (ICAEW) and the Institute of Chartered Accountants of Scotland (ICAS), this ED is produced mainly based on the Technical Release TECH 01/09 *Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Companies Act*

2006 jointly published by ICAEW and ICAS, amended to tailor for Hong Kong specific context.

The key principles for determining realised profits, as contained in the ED, are summarised in a separate draft Staff Summary which is to be finalised upon the final issuance of the PN 610.

## 7. Institute Comments on IASB Exposure Drafts

### (i) ED on *Rate-regulated Activities*

The Institute's **submission** indicates that it is not supportive of the issuance of a narrowly-defined standard for regulatory assets and liabilities given the existing standards in IFRS covering intangible assets, financial instruments and provisions are sufficient.

The Institute is concerned that the proposed standard would allow the recognition of assets and liabilities that, some believe, are inconsistent with the requirements of the *Framework*. The Institute would support the addition of application guidance to existing standards that covers some of the key considerations in determining whether the recognition criteria in that standard have been met, as well as required disclosures.

If the IASB decides to continue with this project, it is believed that the scope of the proposed standard needs to be narrowed to contain only cost-of-service regulation that contains a direct and observable cause-and-effect relationship between costs and revenues.

### (ii) ED on *Improvements to IFRSs*

As indicated in the Institute's **submission**, the Institute generally agrees that the proposed amendments are appropriate matters to be addressed in the Annual Improvements Project except for the following three matters on which the Institute has concerns:

- The proposed amendment to IAS 8 *Changes in Accounting Policies, Accounting Estimates and Errors* to update the conceptual framework terminology seems to pre-empt changes. It is suggested that these changes be made as consequential changes as and when the *Framework* is amended.
- The amendment to IAS 27 *Consolidated and Separate Financial Statements* on the impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor is inconsistent with the new IFRS 9.

The Institute does not support this amendment requiring that, should IAS 39 be used to measure these interests, they must be designated as at fair value through profit or loss as in many cases, these investments would not meet the criteria in IAS 39 for such designation.

- The Institute does not support the proposal for removing the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, which would have a significant impact on property developers that both develop properties for sale and for rental purposes, and hence should not be the type of issue dealt with in an annual improvement project.

Moreover, this treatment creates an inconsistency in the accounting for property acquired as investment property, but now being developed with a view to sale, and property acquired with a view to sale.

The Institute especially supports the IASB's proposal to broaden an existing exemption to a first-time adopter for an event-driven revaluation that occurred during its first set of IFRS financial statements and permit its retrospective application.

## 8. Q&A on Amendments to HKAS 17 Leases – Classification of Leases of Land and Building

The Institute issued a [Question & Answer](#) on the amendments to HKAS 17 to discuss the impact on the classification of interests in leasehold land situated in Hong Kong.

### International Meetings

## 9. International Accounting Standards Board

The IASB met on 16 – 20 November 2009 and discussed the following topics:

- Emissions Trading Schemes
- IFRIC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*
- IFRIC Update
- Income taxes
- Insurance contracts
- Leases
- Liabilities
- Post-employment benefits
- Proposed amendments to IFRS 1
- Revenue Recognition
- SAC Update

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

## 10. International Financial Reporting Interpretations Committee

The IFRIC next meets in January 2010. Click [here](#) for the next meeting's details.

## 11. International Auditing and Assurance Standards Board

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

## 12. International Ethics Standards Board for Accountants

The IESBA next meets in February 2010. Click [here](#) for the next meeting's details and previous meeting summary.

### Useful Resources

## 13. Publications

The following are publications on various topics:

- (i) Annual improvements on HKAS 17:
  - [HKFRS update](#) by BDO
- (ii) Staff practice alert on external confirmations:
  - [Alert](#) by IAASB
- (iii) Commitment to international convergence:
  - [Joint statement](#) by the IASB and FASB
- (iv) Classification of financial instruments within IFRS 7 fair value hierarchy:
  - [Guide](#) by Ernst & Young
- (v) 2009 year-end reporting:
  - [Outlook](#) by Ernst & Young
- (vi) Amendment to related party disclosures:
  - [HKFRS news](#) by PwC
  - [HKFRS update](#) by BDO
- (vii) HKFRS 9:
  - [IAS plus update](#) by Deloitte
  - [Outlook](#) by Ernst & Young
  - [Update](#) by KPMG
  - [Update](#) by PwC

## Comment Due Dates

**21 December 2009:** ED of *Proposed Amendment to IFRS 1 – Limited Exemption From Comparative IFRS 7 Disclosures for First-time Adopters*

**31 December 2009:** ED of PN 740 *Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules*

**4 January 2010:** IAASB Consultation Paper on Auditing Complex Financial Instruments

**29 January 2010:** ED of PN 610 *Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance*

**8 February 2010:** IASB ED of *Management Commentary*

**8 February 2010:** IAASB Consultation Paper on Assurance on a Greenhouse Gas Statement

**7 June 2010:** IASB ED of *Financial Instruments: Amortised Cost and Impairment*

## Specialist Practices, Business Members and Advocacy

### Corporate Finance

#### 14. Institute Comments on Proposed Changes to Circulars and Listing Documents

As reported in [TechWatch No. 84](#), HKEx issued a consultation paper to seek views on proposals to streamline requirements for listed issuers' circulars and listing documents.

While the Institute expressed support, in principle, for the proposed changes, in its [submission](#), the Institute asks the Stock Exchange to specify more precisely in the Listing Rules the level of information required under the proposed revised rule 14.68(2)(a)(i). This is to enable issuers and auditors/reporting accountants to have a clear understanding of, and to ensure consistency in, the level of information to be provided in a very substantial disposal circular.

The Listing Rules should also require listed issuers to specify clearly and prominently in the circulars and listing documents where and how a shareholder or investor can access certain information in the public domain, which, given that it is already available to the public, will no longer be required to be reproduced in the relevant circular and listing documents.

### Taxation

#### 15. Inland Revenue Department Issues New/ Revised Practice Notes Nos. 46 and 21

The Inland Revenue Department ("IRD") issued a revised Departmental Interpretation and Practice Notes ("DIPN") [No. 21 Locality of Profits](#) and a new DIPN [No. 46 Transfer Pricing Guidelines – Methodologies and Related Issues](#) on 4 December 2009. See [What's New](#) on the IRD website for details of these important DIPNs.

## 16. New Commissioner of Inland Revenue Appointed

The government has announced that Mr. Chu Yam-yuen has been appointed Commissioner of Inland Revenue, to succeed Mrs. Alice Lau Mak Yee-ming, with effect from 6 December 2009. The Institute offers its congratulations to Mr. Chu and it best wishes to Mrs. Lau as she proceeds on pre-retirement leave.

### Professional Accountants in Business

## 17. Results of the 2009 Best Corporate Governance Disclosure Awards

This year's Best Corporate Governance Disclosure Awards ("2009 Awards") was successfully concluded with the presentation ceremony held at a luncheon on 24 November 2009. The guest of honour, Under Secretary for Financial Services and the Treasury, Ms. Julia Leung, addressed the audience and presented the awards to the winners.

The results of the 2009 Awards were announced at a [media briefing](#) held on 23 November 2009. At the briefing, the Institute's president and the chairman of the organising committee reported on the overall standard of the entries, some of the positive corporate governance practices of the winning companies/organisations, and also areas for improvement. Amongst other things, they noted the success of the new category for mid-small cap companies. They also emphasised that, by not giving out all of the top awards this year, the judges were conveying a message that listed companies and public sector organisations should continue to strive for excellence in corporate governance.

The winners of the 2009 Awards are:

### Hang Seng Index Category

Diamond – CLP Holdings Limited  
 Platinum – Hong Kong Exchanges and Clearing Limited  
 Gold – HSBC Holdings plc  
 Special Mention – MTR Corporation Limited

### Non-Hang Seng Index (Large Market Capitalisation) Category

Platinum – Standard Chartered PLC  
 Gold – Hysan Development Company Limited  
 Significant Improvement – Alibaba.com Limited

### Non-Hang Seng Index (Mid-to-small Market Capitalisation) Category

Platinum – Sa Sa International Holdings Limited  
 Gold – Ta Yang Group Holdings Limited  
 Special Mention – Clear Media Limited

### H-share Category

Platinum – Industrial and Commercial Bank of China Limited  
 Gold – China Merchants Bank Co., Ltd. & Jiangsu Expressway Company Limited

### Public Sector/Not-for-profit Category

Diamond – Airport Authority Hong Kong

The [judges' report](#) also contains the judges' commentaries on the winning annual reports, the general observations of the judges and reviewers, as well as other background information.

### Legislation & Other Initiatives

## 18. Consultation Conclusions on the Operation of the Deposit Protection Scheme

On 30 November 2009, the Hong Kong Deposit Protection Board ("HKDPB") published a [report](#) on the consultation on strengthening the operation of the Deposit Protection Scheme ("DPS"). The report sets out the outcome of HKDPB's discussion with the industry on funding arrangements for the DPS, summarises the major comments received on the recommendations, and the responses and conclusions of the HKDPB. See [TechWatch No. 83](#) for the key recommendations and the Institute's [submission](#).

The recommendations on streamlining payout processes received a general support. The spirit of keeping depositors well informed of the protection status of their deposits also received wide support, including that of the industry.

However, it was noted that the banks might encounter difficulties in implementing some of the recommendations. The HKDPB has indicated that it is prepared to provide flexibility to address the reasonable concerns of the industry.

The aim is to introduce enhancements to the DPS before the end of 2010 so that the public can benefit from an enhanced scheme when the full deposit guarantee provided by the government expires.

## 19. 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 5959**: New list of relevant persons and entities specified under the United Nations Sanctions (Liberia) Regulation.
- **Government notice 6832**: Updated list of terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- **US executive order 13224**: Changes 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

### 20. New SFC Guide for the Investing Public

The Securities and Futures Commission (“SFC”) has published a simple, plain language **guide** to help the investing public better understand how the securities and futures markets are regulated and the SFC’s role in the overall regulatory structure. It gives a high level overview of how regulators, market players and investors can each play a part in contributing to a healthy investment environment.

### 21. Standing Committee on Company Law Reform 2008-09 Annual Report

The Standing Committee on Company Law Reform **released** its **2008-09 Annual Report** on 27 November 2009.

### 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 articles/publications on topical issues may be of interest to members:

- (i) Articles on corporate governance by Deloitte
  - **Compensation and Risk are the Words of the Day**
- (ii) Tips for small business - articles for SMEs by ICAEW:
  - **Q&A: Effective leadership in difficult times**
  - **Is this your problem? A competitor is putting pressure on me to sell them my business...**
  - **The right recruitment strategy**