



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

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Financial Reporting, Auditing and Ethics

New!

1. Technical Training Programme

Further to the successful introduction of the revised TUE Programme for the period from January to June 2010, the Institute's Technical, Training and Support Unit is now launching a completely new training programme for the period from June to December 2010 comprising six parts, as follows:

- Technical Update Evenings
- The Revised Code of Ethics
- HKFRS for Private Entities Workshops
- Auditing and Financial Reporting Forums
- Audit Practice Manual Application Workshops
- Training for Audit Staff

Click [here](#) for enrolment details and more information on the Technical Training Programme.

2. Auditing and Assurance Standards Forum

Prof. Arnold Schilder, chairman of the IAASB, is visiting Hong Kong to attend an Auditing and Assurance Standards Forum – Stay tuned for the developments of auditing standards held by the Institute on 20 May 2010 to talk about the recent and forthcoming developments of auditing standards and guidance.

The Forum will include discussions on the latest standard setting news including:

- Audit Quality
- Clarified International Standards on Auditing

- The implications of applying clarified auditing standards by Small and Medium Practitioners in auditing small and medium enterprises
- Recent and forthcoming developments in auditing and assurance standards and guidance

Sign up now to gain first-hand knowledge of how international standard setting impacts the auditing standards and practices in Hong Kong and to put questions to Prof. Schilder and other experts.

Please register early by completing the [registration form](#) and returning it to the Institute.

Members' Handbook

3. Handbook Updates No. 80, No. 81 & No. 82

- (i) [Update No. 80](#) relates to withdrawal of HK-Int 1 *The Appropriate Accounting Policies for Infrastructure Facilities*.

HK-Int 1 was originally developed as guidance on the appropriate method of amortising infrastructure facilities. In particular, HK-Int 1 confirmed that the sinking fund method is not allowed. Moreover, as the phrase "consumption of economic benefits" used in HKAS 38 *Intangible Assets* was subject to debate at the time of issuing HK-Int 1, the Institute did not rule out either the straight-line depreciation method or the units-of-usage depreciation method prior to it obtaining clarification from the IFRIC.

With the issuance of HK (IFRIC) Int -12 *Service Concession Arrangements* in March 2007, an amendment to HKAS 38 *Intangible Assets* in October 2008 and the IFRIC's rejection notice in January 2010 – in response to the Institute's agenda request regarding the meaning of "consumption of economic benefits" in IAS 38 *Intangible Assets*, various aspects of depreciation of property, plant and equipment and

amortisation of intangible assets that are covered in HK-Int 1 have become outdated.

In order to eliminate textual differences from IFRS, the Institute has therefore taken this opportunity to withdraw HK-Int 1. The withdrawal is effective for financial periods commencing on or after 1 January 2010.

- (ii) **Update No. 81** contains consequential amendments to HKFRSs which were previously set out in the appendix to the standards as they were not yet effective. The Institute has taken this opportunity to incorporate amendments applicable on 1 January 2010 in the relevant affected Standards, Basis for Conclusions and Implementation Guidance, for greater clarity.
- (iii) **Update No. 82** contains issuance of HKFRS for Private Entities. Details are summarised in "Financial Reporting" section below.

Financial Reporting

4. Simplified Financial Reporting – HKFRS for Private Entities

On 30 April 2010, the Institute issued HKFRS for Private Entities which is a financial reporting option for eligible Private Entities with the objective to ease the reporting burden of Private Entities by relieving them of the requirement to apply full HKFRSs. Private Entities is defined as (i) do not have public accountability; and (ii) publish general purpose financial statements for external users. Entities are not mandated to adopt the HKFRS for Private Entities even though they are eligible to do so.

In respect of public accountability, an entity is considered to have public accountability if:

- (i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

- (ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Furthermore, paragraph 1.4 of HKFRS for Private Entities states that some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organizations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

HKFRS for Private Entities is effective immediately upon issue. Eligible entities are permitted to use HKFRS for Private Entities to prepare their financial statements for prior period(s) where the relevant financial statements have not been finalised and approved.

HKFRS for Private Entities is based on IFRS for SMEs, but modified to suit Hong Kong circumstances as follows:

- Replacing the term "SMEs" in IFRS for SMEs by "Private Entities"
- Replacing the recognition and measurement principles in Section 29 Income Tax of IFRS for SMEs with the extant version of HKAS/IAS 12 *Income Taxes*
- Requiring that the measurement of deferred tax liabilities associated with an investment property measured at fair value be capped at the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the end of the reporting period, even if the property falls

outside the scope of Hong Kong (SIC) Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*.

Moreover, HKFRS for Private Entities is a self-contained set of accounting principles that are based on full HKFRSs, but that have been simplified to the extent suitable for Private Entities.

The following are the key simplifications made:

- Some topics in HKFRSs are omitted because they are not relevant to typical Private Entities;
- Some accounting policy options in full HKFRSs are not allowed because a more simplified method is available to Private Entities;
- Simplification of many of the recognition and measurement principles that are in full HKFRSs;
- Substantially few disclosures; and
- Simplified redrafting

Omitted topics:

- Earnings per share
- Interim financial reporting
- Segment reporting
- Special accounting for assets held for sale

Examples of options in full HKFRSs not included in HKFRS for Private Entities:

- Financial instrument options, including available-for-sale, held-to-maturity and fair value options
- The revaluation model for property, plant and equipment, and for intangible assets
- Proportionate consolidation for investments in jointly-controlled entities

- For investment property, measurement is driven by circumstances rather than allowing an accounting policy choice between the cost and fair value models
- Various options for government grants

Major recognition and measurement simplifications:

- Financial instruments meeting specified criteria are measured at cost or amortised cost. All others are measured at fair value through profit or loss.
- Hedge accounting requirements, including the detailed calculations, are simplified and tailored for Private Entities.
- Goodwill and other indefinite-life intangibles are amortised over their estimated useful lives, but if useful life cannot be reliably estimated, then use 10 years.
- The cost model is permitted for investments in associates and joint ventures.
- There are no special accounting requirements for assets held for sale.

The Institute has established and maintained a [HKFRS for Private Entities Information Centre](#) website to provide one-stop access to the updated news, webcasts and technical resources in relation to HKFRS for Private Entities.

5. FRSC Minutes

This [FRSC minutes](#) on 2 March 2010 covers:

- Report on IASB Standards Advisory Council Meeting on 22 and 23 February 2010
- Withdrawal of HK-Int 1 *The Appropriate Accounting Policies for Infrastructure Facilities*
- HKFRS for Private Entities
- HKICPA Exposure Draft ("ED") on Guidance on the Determination of Realised Profits

and Losses in the Context of Distributions under the HK Companies Ordinance

- IASB proposed exemption in IFRS 1 for the use of an event-driven revaluation as deemed cost
- Update on deferred taxation issue related to revaluation of investment properties
- IASB ED on Management Commentary
- Visit of Sir David Tweedie on 16 April 2010

6. Invitation to Comment on IASB Discussion Paper on *Extractive Activities*

The Institute has issued an [Invitation to Comment](#) on IASB Discussion Paper ("DP") on *Extractive Activities*, with comments requested by 16 July 2010.

Extractive activities are the activities undertaken by entities when searching for, and ultimately extracting, minerals, oil or natural gas. The area of extractive industries poses some very specific challenges resulting from the uncertainties that are faced by entities pursuing extractive activities: for instance assessing the quantities that may be found and the costs involved in accessing and extracting the resources.

The current standard, IFRS 6 *Exploration for and Evaluation of Mineral Resources*, was issued in 2004 as an interim standard pending completion of this research project. Existing IFRSs do not specifically address the accounting for the development and production of minerals or oil and gas properties, and do not include specific disclosure requirements that would help users to assess the nature and extent of the risks involved in the extractive activities. Because of the lack of guidance on these issues, the accounting and disclosure practices of entities engaged in extractive activities often vary by industry, by jurisdiction, and by the size of the company.

This DP discusses how a possible standard on extractive activities could address these issues,

thereby improving the relevance and comparability of financial statements.

Audit & Assurance

7. AASC Minutes

This [AASC minutes](#) on 23 February 2010 mainly covers:

- Proposed Work Plan for 2010
- To consider and endorse the new HKSAE 3402 *Assurance Reports on Controls at a Service Organization* for issue
- Progress Report on updating of example bank confirmation in HKSA 505 (Clarified) *External Confirmations*
- To consider the revised *Circular on Reporting on the Audit of Schools*
- Practice Note 740 *Auditor's letter on Continuing Connected Transactions under the HK Listing Rules*

Ethics

8. Invitation to Comment on IESBA Exposure Draft on Proposed Strategy and Work Plan, 2010-2012

The Institute has issued an [Invitation to Comment](#) on IESBA ED on Proposed Strategy and Work Plan, 2010-2012, with comments requested by 28 May 2010.

The proposed strategy and work plan focus on the new projects and activities, which were selected based on the results of an IESBA-commissioned survey of interested parties.

Under the proposed strategy and work plan, the IESBA intends to complete two projects that were indicated as a high priority in its previous work plan. Work on those projects was postponed to allow the IESBA to complete the revisions to the Code of Ethics for Professional Accountants ("Code") resulting from its Independence and Drafting Conventions projects. The two projects are:

- (i) Conflicts of Interest – The IESBA will reconsider the nature and extent of the guidance in the Code on conflicts of interest and revise Sections 220 and 310 as appropriate; and
- (ii) Responding to Fraud or Illegal Acts – The IESBA will reconsider the nature and extent of the guidance in the Code on how professional accountants should respond in situations where they encounter a suspected fraud or illegal act and revise the Code as appropriate.

In addition, the IESBA also plans to begin a project that addresses the application of the “related entity” definition in the Code to audits of collective investment vehicles.

Furthermore, the IESBA plans to continue to assess what additional material or activities would be useful to support those who are adopting and implementing the Code. To further its objective of facilitating convergence of international and national ethical standards—including independence requirements—the IESBA will liaise closely with national standard setters and regulators to identify and understand their perspectives on convergence and to seek their views on how the Code can be a catalyst to achieve greater convergence.

International Meetings

9. International Accounting Standards Board

The IASB met on 8, 18-23 April 2010, and discussed the following topics:

- Annual improvements
- Derecognition
- Fair value measurement
- Termination benefits – amendments to IAS 19
- Consolidation

- Financial instruments: classification and measurement
- Financial instruments: hedge accounting
- Financial statement presentation
- Insurance contracts
- Leases

Click to view the IASB Update on the meetings on [8 April](#) and [18-23 April](#). The IASB next meets in May 2010.

10. International Financial Reporting Interpretations Committee

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

11. International Auditing and Assurance Standards Board

The IAASB next meets in June 2010. Click [here](#) for the next meeting’s details and previous meeting summary.

12. International Ethics Standards Board for Accountants

The IESBA next meets in June 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) Progress report on convergence:
 - [Report](#) by IASB and FASB
- (ii) Impact on annual improvements projects:
 - [Real estate industry watch \(item 2\)](#) by PwC

(iii) Status on IASB's income tax project:

- [Tax accounting update](#) by PwC

Comment Due Dates

28 May 2010: IESBA ED on Proposed Strategy and Work Plan, 2010-2012

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

2 July 2010: IASB ED of *Conceptual Framework for Financial Reporting: The Reporting Entity*

16 July 2010: IASB DP on *Extractive Activities*

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Corporate Finance

14. SFC Enhances Regulation of Retail Structured Products

In the [consultation conclusions](#) on Possible Reforms to the Prospectus Regime in the Companies Ordinance and the Offers of Investments Regime in the Securities and Futures Ordinance released on 22 April 2010, the Securities and Futures Commission ("SFC") announced that, to enhance investor protection in relation to structured products, it would proceed to transfer the regulation of public offers of structured products from the Companies Ordinance ("CO") prospectus regime to the offers of investments regime in Part IV of the Securities and Futures Ordinance ("SFO").

The transfer will enable public offers of all unlisted structured products (regardless of their legal form) to be regulated under the SFO. Relevant codes and guidelines for the industry will be published by the SFC, setting out its regulatory policy on such products. Meanwhile, the existing practice for traditional banking products and listed structured products will remain unchanged.

15. SFC Proposes Amendments to Codes on Takeovers and Share Repurchases

On 21 April 2010, the SFC began a four-week [consultation](#) to solicit public comments on proposals to amend the Codes on Takeovers and Mergers and Share Repurchases ("Codes") so that certain routine announcements would no longer be required to be submitted to the SFC for comment prior to publication. A number of other miscellaneous and "housekeeping" amendments to the Codes are also proposed. The consultation period will end on 19 May 2010.

Members are welcome to submit views to the Institute, under the heading "SFC Codes", by emailing on or before 14 May 2010 to <commentletters@hkicpa.org.hk>.

Taxation

16. New Commissioner Shares Views on Recent Tax Developments

Commissioner of Inland Revenue ("CIR") Chu Yam-yuen shared his views on recent developments in Hong Kong's tax administration in the taxation interest group networking cocktail on 15 April. Click to see [speech](#).

17. IRD News

The following notices have recently been issued on the Inland Revenue Department's website:

- [Advance ruling case no. 42](#) (in respect of section 18E of the Inland Revenue Ordinance).
- [CIR's speech](#) on several current topics at a press conference on 3 May 2010.
- [A Legislative Council question and response](#) from 5 May 2010 session on aspects of the work of the IRD.

Legislation & Other Initiatives

18. Companies Registry Updates

The following notices have recently been issued on the Companies Registry's website:

- (i) Frequently Asked Questions ("FAQs") relating to the incorporation of a local limited company:
 - [FAQ no. 5](#) has been revised to highlight that the Companies Ordinance has not prescribed any requirement for a minimum amount of nominal share capital of a company
 - [FAQ no. 6](#) has been added to indicate that there is no requirement on the minimum amount of a company's paid-up capital under the Companies Ordinance upon application for

incorporation or commencement of business

- (ii) The [second phase consultation](#) on draft Companies Bill has been launched. Click to see the [press release](#).
- (iii) The Registry's 2009-10 [performance pledge](#) record and pledges for 2010-11 have been published.

Useful Resources

19. New Books in the Library

[Featured titles](#) and [new books](#) of high reference value for members are now available in the library.

20. Other Publications

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

- (i) Articles/publications on corporate governance by Deloitte
 - [Audit committee brief – Introducing the audit committee resource guide](#)
 - [Audit committee performance evaluation](#)
 - [Financial literacy self-assessment tool](#)
 - [The broken triangle? Improving the relationship between internal audit, management, and the audit committee](#)
 - [Deloitte launches China centre for corporate governance](#)
- (ii) [SFC enforcement reporter](#) highlights the SFC's key enforcement outcomes and issues
- (iii) [Tax treaties with Brunei, Indonesia, and the Netherlands offer new opportunities for Hong Kong companies](#) by PwC
- (iv) [Section 39E: a way forward?](#) by KPMG