



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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, by email to < commentletters@hkicpa.org.hk >. Click [here](#) for past issues.

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Financial Reporting, Auditing and Ethics

New!

1. Quality Assurance Annual Report 2010

The Institute's quality assurance department has published its **annual report 2010** summarizing its work carried out under practice review and professional standards monitoring programmes. Major findings and educational points cover the following topics:

- Quality control procedures
- Audit methodology and procedures
- Accounting issues arising from initial applications of new or revised financial reporting standards, amendments and interpretations
- Application issues on standards such as accounting for non-current assets held for sale and discontinued operations, determination of useful life of intangible assets and accounting for convertible bonds

Financial Reporting

2. FRSC Minutes

This **FRSC minutes** on 8 March 2011 covers:

- Report on IFRS Advisory Council Meeting on 21 and 22 February 2011
- IFRS Foundation Monitoring Board Consultative Report on the Review of the IFRS Foundation's Governance
- IASB draft work plan for post-implementation review of IFRS
- IASB Outreach on ED of Offsetting of Financial Assets and Financial Liabilities
- SME Implementation Group Draft Question and Answer on Use of IFRS for SMEs in Parent's Separate Financial Statements

- Asian-Oceanian Standard-Setters Group Vision Paper
- European Financial Reporting Advisory Group Discussion Paper – Considering the Effects of Accounting Standards

3. Invitations to Comment

- (i) SME Implementation Group Draft Question and Answers

The Institute has issued an **Invitation to Comment** on the draft non-mandatory guidance in the form of Question and Answers ("Q&As") (2011/02, 2011/03 and 2011/04) published by the SME Implementation Group ("SMEIG"), with comments requested by **27 May 2011**.

The SMEIG is responsible for assisting the IASB on matters related to the implementation of the IFRS for SMEs.

The new Q&As cover the following topics:

- Capital insurance subsidiaries
- Interpretation of "traded in a public market"
- Investment funds with only a few participants

- (ii) IVSC ED of *Technical Information Paper 2 Depreciated Replacement Cost*

The Institute has issued an **Invitation to Comment** on IVSC ED of *Technical Information Paper 2 Depreciated Replacement Cost*, with comments requested by **13 May 2011**.

The objective of the ED is to provide guidance on the application of the "Depreciated Replacement Cost" method of valuation, the most common valuation method under the cost approach. The cost approach estimates value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase

or by construction. It can be applied to a wide range of asset types and is frequently used when there is either very limited or no evidence of sales transactions (such as the valuation of specialized assets arising in business combinations).

4. Institute Comments on Consultation Documents

(i) The IASB's post-implementation reviews

The Institute made a **submission** to IASB on its post-implementation reviews and the Institute welcomes the initiatives by the IASB to perform post-implementation reviews on the existing financial reporting standards and has highlighted some suggestions to enhance the process of the review on the standards as follows:

- FASB should also be involved in the review to facilitate consistent understanding of the implementation issues reached by the organizations and further appropriate joint actions can be taken as appropriate.
- The IASB should establish a pre-implementation mechanism similar to that which the IAASB adopted to enhance its responsiveness to practical issues of standards adoption.
- The IASB should carry out post-implementation reviews of some of the older standards that are not under the current work plan but which entities are finding difficult to understand or are difficult to apply in practice.
- The direct involvement by the IASB Technical Staff in the post-implementation review would better facilitate their understanding and consideration of the practical issues.

(ii) IASB Supplement to ED of *Financial Instruments: Impairment*

The Institute made a **submission** to IASB Supplement to ED ("SD") of *Financial*

Instruments: Impairment. The proposed joint approach as set out in the SD is a compromise between IASB and FASB, which has no clear rationale of its conceptual basis for the superimposition of a "floor" on a "good book", the Institute agrees that this model should address the most significant concern raised by regulators about existing provisioning for impairment being "too little, too late". However, it is noted that no expected loss model will ever ensure that sufficient provisioning has been made where losses occur as a result of unexpected events such as the recent global financial crisis.

The Institute supports an approach that is based on two groups (i.e. a "good book" and a "bad book"), as it is intended to be aligned with the way financial institutions manage their loan portfolios. This new approach is directionally consistent with the other phases of the project to replace IAS 39, for example, classification of financial instruments and hedge accounting, which are, or are proposed to be, reflective of an entity's business models and risk management strategies and policies.

The Institute considers that the proposed joint approach should be operationally more feasible than the approach in the original IASB ED, but the complex nature of the new proposal results in a greater need for definitions and guidance around key concepts including (i) definition of "foreseeable future period"; (ii) determination of weighted average expected age/life; and (iii) distinction between "good book" and "bad book".

The IASB should engage in field-testing with constituents to determine the degree to which the proposals are operational, and to determine the extent to which the proposed model meets the objective of the proposals. This is particularly important as the Boards have yet to consider, and have not requested additional input on, a number of significant and challenging issues such as: the method of measuring expected lifetime credit losses, the recognition of interest

income with respect of financial assets in a "bad book", the integration of "credit losses" into the amortized cost model and the application of the model to purchased loans, including those acquired through a business combination. Whether the proposed joint approach is a workable solution may ultimately depend on how these other issues are addressed. It would also be useful for the Boards to reconvene the Expert Advisory Panel to develop practical guidance that can address the above concerns for preparers.

Finally, the Institute is concerned about the amount and importance of the outstanding issues which need to be dealt with before issuing a final standard. It is believed that given the magnitude of the impact of the proposals, the IASB should consider re-exposing them for further comments even if this means delaying the committed deadline. Proper field testing of the proposed model by both preparers and auditors are prerequisites in publishing the final Standard.

In addition, it is believed that entities would need a minimum of 24 to 30 months before the beginning of the comparative period when the changes are first applied to properly prepare for the new standards. With one year of comparative information for IFRS preparers, the mandatory effective date for IFRS 9 could be no earlier than 1 January 2015.

(iii) SMEIG Q&A on Use of IFRS for SMEs in Parent's Separate Financial Statements

The Institute made a [submission](#) to SMEIG Q&A which intends to address the question as to whether the parent entity can present its separate financial statements in accordance with the IFRS for SMEs if it is required to present consolidated financial statements in accordance with full IFRSs. Assuming the parent entity itself is eligible to use IFRS for SMEs under Section 1 of the standard, the Institute, while agreeing in principle with the response set out in the

draft Q&A, highlighted the following for attention:

- The Institute has concerns on the potential confusion that may arise in situations where the presentation of the separate financial statements of the parent entity prepared using the IFRS for SMEs cannot be differentiated sufficiently from the consolidated financial statements prepared using full IFRSs when the two financial statements are presented together. This might also create an issue to the auditor if they are required to issue a separate opinion on each of the financial statements.

Accordingly, the Institute suggests the SMEIG give due consideration on this and, where appropriate, give further guidance as to whether and, if so, how the two financial statements presented could influence the choice of the Standard to be used.

- It is noted that Paragraph 2 of the draft Q&A raises the question "If a group is required to present consolidated financial statements in accordance with full IFRSs, can the parent entity present its separate financial statements in accordance with the IFRS for SMEs?" The Institute is of the view that the word "group" in the above sentence may not be appropriate as a "group", which usually refers to a combination of the parent and its subsidiaries which is not a separate legal entity.

The Institute considers the SMEIG may consider replacing the word "group" with "parent entity" which it is considered to be more appropriate.

(iv) IFRS Foundation Monitoring Board – Consultative Report on the Review of the IFRS Foundation's Governance

The Institute made a [submission](#) to IFRS Foundation Monitoring Board to appreciate

its initiative to seek views of stakeholders on whether the current governance structure effectively promotes the standard-setter's primary mission of setting high quality, globally accepted standards as set forth in the Constitution of the IFRS Foundation, and whether the standard-setter is appropriately independent yet accountable. The Institute understands that the primary focus of the review is institutional aspects relating to governance, in particular the composition and respective responsibilities and roles of the Monitoring Board, Trustees and IASB.

The Institute considers that this Governance Review and the comments on Status of Trustee's Strategy Review in February 2011 should be considered together at the same time in order to identify and address all the relevant issues and concerns.

The salient features of the Institute's comments are as follows:

- The candidates for IASB membership should be from jurisdictions that have adopted IFRS.
- The roles of the IASB Chair and the CEO of the IFRS Foundation should be of equal seniority and will need to work closely together to achieve the aims and objectives of the IAS and the Trustees.
- The Institute supports the proposal to expand the membership of the Monitoring Board and consider that membership should include representatives from both developed and emerging markets.
- The Monitoring Board and the Trustees should develop a joint communication to explain the respective responsibilities of each party as there is still a lot of confusion amongst stakeholders as to the exact roles of the Monitoring Board and the Trustees.
- The role of the Monitoring Board in providing independent assurance over the Trustees and IASB governance and process should not be extended to being involved in setting the agenda of the IASB.

Audit & Assurance

5. AASC Minutes

This [AASC minutes](#) on 22 March 2011 mainly covers:

- IAASB ED on *Proposed ISRS 4410 (Revised) Compilation Engagements* and IAASB Consultation Paper on *Proposed Strategy and Work Program for 2012-2014*
- Revised PN 600.1 *Reports by Auditor under the Hong Kong Companies Ordinance*
- The Chinese translation of Appendix 2 "Standard Bank Confirmation Request Form" of HKSA 505 (Clarified) *External Confirmations*
- Proposed amendments to Illustration examples in Appendix 1 of HKSA 810
- HKEx proposals to require auditors to answer questions at AGM
- Auditing and Assurance Technical Bulletin 1 *Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting*

International Meetings

6. International Accounting Standards Board

The IASB met on 12-15 April 2011 discussed the following topics:

- Financial instruments: hedge accounting
- Financial instruments: impairment

- IFRS Interpretations Committee – update from last meeting
- Insurance contracts
- Leases
- Revenue recognition

Click to view the IASB Update on the meeting on [12-15 April](#). The IASB next meets in May 2011.

7. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in July 2011. Click [here](#) for the next meeting's details.

8. International Auditing and Assurance Standards Board

The IAASB next meets in June 2011. Click [here](#) for the next meeting's details and previous meeting summary.

9. International Ethics Standards Board for Accountants

The IESBA next meets in June 2011. Click [here](#) for the next meeting's details and previous meeting summary.

Useful Resources

10. Publications

The following are publications on various topics:

- (i) Impairment testing:
 - [Publication](#) by Ernst & Young
- (ii) Changes to IFRS 7:
 - [Supplement to IFRS Outlook](#) by Ernst & Young
- (iii) Work plan for IFRSs:
 - [IASB work plan - Projected Timetable](#) by IFRS Foundation

(iv) Effective dates of IFRSs:

- [In the Headlines](#) by KPMG

Comment Due Dates

13 May 2011: IVSC ED of *Technical Information Paper 2 Depreciated Replacement Cost*

20 May 2011: IAASB ED on Proposed ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*

27 May 2011: SME Implementation Group Draft Question and Answers

Specialist Practices, Business Members and Advocacy

Corporate Finance

11. Credit Rating Agencies in Hong Kong to be Regulated from Next Month

The Securities and Futures Commission ("SFC") will license and regulate credit rating agencies ("CRAs") and their rating analysts from 1 June 2011. The creation of a regulatory regime for CRAs follows a public [consultation](#) conducted by the SFC in the second half of 2010, while a [conclusion paper](#) was issued in October 2010. Relevant legislative amendments were reported in [TechWatch no. 101](#) (item 14).

CRAs and their rating analysts intending to provide credit rating services on or after 1 June 2011 have to submit applications to the SFC for a Type 10 licence. To assist the industry make the transition, the SFC has issued a [circular](#) highlighting certain licensing requirements, including:

- the timetable for the submission of licence applications;
- competence requirements for rating analyst applicants; and
- criteria for exemption from regulatory examinations for existing rating analysts.

A new series of [frequently asked questions](#) related to the upcoming CRA regulation is published on the SFC website.

Insolvency & Corporate Restructuring

12. ORO Accepts New Applications for Panel A Scheme

Applications by firms to join the Panel A scheme for court-ordered winding up cases have been suspended since November 2007, as a review

of the scheme has been under way. The Official Receiver's Office ("ORO") has announced that for the time being it has resumed processing new applications for the Panel A scheme with effect from 31 March 2011, on the basis of the existing scheme rules.

Meanwhile, the ORO is working on the proposed revised scheme rules, with a view to consulting insolvency practitioners in due course.

13. ED of Professional Ethics in Liquidation and Insolvency – Comments Sought by End of May

The submission deadline for comments on the [exposure draft](#) ("ED") of section 500 *Professional Ethics in Liquidation and Insolvency* of the Institute's Code of Ethics for Professional Accountants ("the Code") is **31 May 2011**. The proposed new section 500 will update and replace the existing section 432 *Integrity, objectivity and independence in insolvency* of the Code. As part of the Code, it will be a professional standard, with which members of the Institute will be expected to comply, once it has been finalized and becomes effective.

Refer to [TechWatch no. 102](#) (item 19) for a brief description about the ED.

Taxation

14. Tax Legislation

The following are bills recently introduced into the legislature relating to tax:

- [Inland Revenue \(Amendment\) \(No. 2\) Bill 2011](#) to implement the budget initiative in respect of profits tax deduction for capital expenditure incurred on the purchase of copyrights, registered designs and registered trademarks.
- [Inland Revenue \(Amendment\) \(No. 3\) Bill 2011](#) to implement the concessionary revenue measures announced in the 2011-12 budget.

15. LegCo Question

Click to see Legislative Council question on [HK enterprises engaged in processing operations](#).

16. IRD Issues Tax Returns and Announces Record Tax Collections in 2010/11

Click to see [press release](#) that announces the issuance of individual income tax returns and provisional figures for the 2010/11 revenue collection.

Legislation & Other Initiatives

17. Companies Registry Update

The Companies Registry has updated the [Third Party Software Interface Specification](#), the data specifications and the XML data file samples for e-forms NC1, NC1G and NC2 (for incorporation and change of company name). In addition, templates of e-forms NC1, NC1G and NC2 are also provided to enable testing by third party software developers.

18. Latest Notices on AML/CFT

Members may wish to note that the following notices and publications in relation to combating money laundering/terrorist financing:

- [Government notice 2165](#): Updated list of terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- [Government notice 2024](#): A list of relevant persons specified under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2011. The regulation was made under the United Nations Sanctions Ordinance and published as [legal notice 46 of 2011](#) in the gazette.
- [Government notice 2026](#): A list of relevant persons specified under the United Nations Sanctions (Liberia) Regulation 2011. The regulation was made under the United Nations Sanctions Ordinance and published as [legal notice 47 of 2011](#) in the gazette.

- [Government notice 2025](#): A list of relevant persons specified under the United Nations Sanctions (Iran) (Amendment) Regulation 2011. The regulation was made under the United Nations Sanctions Ordinance and published as [legal notice 49 of 2011](#) in the gazette.
- [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

19. Library Resources

[Featured titles](#) and [new books](#) of high reference value for members are now available. In addition, members can [login](#) to the [e-Library](#) and access e-journals and e-books on a wide range of business subjects.

20. Other Publications

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

- (i) In April 2011, HKEx published:
 - two listing decisions in relation to:
 - calculation of public float involving convertible preference shares ([LD8-2011](#))
 - share option scheme involving issue of A shares ([LD9-2011](#))
 - [Status report](#) on new product and market development initiatives (as of 15 April 2011)

- **Report** on initial public offering applications, delisting and suspensions (as at 29 April 2011)
 - 40th edition of HKEx quarterly newsletter - **Exchange**
- (ii) In April 2011, SFC published:
- **Points to note** to trade listed renminbi securities in the secondary market
 - An investor education article, **Understanding the latest REITs in Hong Kong**, explaining key features and risks related to latest Real Estate Investment Trust ("REIT") products, REITs investing in real estate located in Mainland China and REITs denominated and traded in renminbi
 - **Takeovers bulletin** (issue no. 16) to help understanding of the Codes on Takeovers and Mergers and Share Repurchases
- (iii) Articles on corporate governance by Deloitte:
- **Audit committee brief: Going from zero to effective in record time – successful onboarding for new audit committee members**
 - **Corporate sustainability: Enhancing the bottom line**