



TechWatch

News at a glance

Issue 108 • October 2011

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

New!

1. Annual Accounting Update Conference 2011

The Institute will hold an annual accounting update conference on 22 October 2011. Prominent speakers from major accounting firms will cover the latest developments on accounting standards and HKFRSs. Here are the highlights:

- HKFRS 13 *Fair Value Measurement*
- HKFRS 10 *Consolidated Financial Statements*
- HKFRS 11 *Joint Arrangements*
- HKFRS 12 *Disclosure of Interests in Other Entities*
- Latest development on HKFRS 9 *Financial Instruments* (including new proposed credit impairment approach and hedge accounting)
- New and amended HKFRSs applicable in 2011

Click [here](#) for more information and enrolment details. Register early to secure your seats.

2. Training for Audit Manager

Two additional workshops for audit manager will be held on 21 November 2011 and 4 January 2012. They will cover the following areas:

- The conduct of small to medium-sized engagements in compliance with Hong Kong Standards on Auditing. The auditing process, which includes planning, risk assessment, audit procedures and documentation, will be illustrated with case studies
- Auditing of more complex and riskier areas: revenue, inventory, accounting estimates,

related parties and using the work of an expert

- Common issues in respect of applications of financial reporting standards

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

Financial Reporting

3. FRSC Minutes

This [FRSC minutes](#) on 13 July 2011 covers:

- Report on IFRS Advisory Council Meeting on 20 and 21 June 2011
- Issuance of amendments to HKFRSs
- Enquiry from the Companies Bills Team
- Submission on IFRS Foundation Trustee Strategy Review
- Visit of new IASB chairman Hans Hoogervorst
- AOSSG questionnaire in relation to Islamic Finance
- Comparison between HKFRSs and IFRSs as at 30 June 2011
- Matters related to AOSSG
- Mandatory effective date of IFRS 9
- Request for view from IFRS Interpretations Committee

4. Invitation to Comment on IIRC Discussion Paper on Integrated Reporting

The Institute has issued an [Invitation to Comment](#) on the International Integrated Reporting Committee ("IIRC") Discussion Paper *Towards Integrated Reporting – Communicating Value in the 21st Century* ("Discussion Paper"), with comments requested by **14 November 2011**.

Since the current business reporting model was designed, there have been major changes in the way business is conducted, how business creates value and the context in which business operates. These changes are interdependent and reflect trends such as: globalization; growing policy activity around the world in response to financial, governance and other crises; heightened expectations of corporate transparency and accountability; actual and prospective resource scarcity; population growth; and environmental concerns.

Against this background, stakeholders may require additional information to assess the past and current performance of organizations and their future resilience. Integrated reporting intends to enhance reporting by bringing together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates.

This Discussion Paper considers the rationale behind the move towards integrated reporting, offers initial proposals for the development of an international integrated reporting framework and outlines the next steps towards its creation and adoption, including the publication of an exposure draft in 2012. Its purpose is to prompt input from all those with a stake in improved reporting, including both producers and users of reports.

Audit & Assurance

5. AASC Minutes

This [AASC minutes](#) on 19 July 2011 covers:

- AASC Work Plan 2011 – Status Report
- Revised Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 400 *Comfort Letters and Due Diligence Meetings*
- Result of the Bank Confirmation Survey
- Annual Auditing Update Conference 2011 scheduled for 24 September 2011

- Revised Circular on Reporting on the Audit of Schools
- Consultation on Arrangements for issuing Certificate of Particulars of Motor Vehicle

6. Institute Comments on IAASB Consultation Documents

- (i) Proposed ISAE 3000 (Revised) and Other Consequential Amendments

The Institute made a [submission](#) to IAASB on Proposed ISAE 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and Proposed Consequential Amendments for International Framework for Assurance Engagements, ISAE 3402 *Assurance Reports on Controls at a Service Organization*, ED of Proposed ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*.

In general, the Institute agrees that ISAE 3000 is a principle-based standard capable of being applied effectively to a broad range of underlying subject matters. It is believed that the proposed ISAE 3000 is clear in explaining the differences between reasonable assurance engagements and limited assurance engagements.

However, the Institute found that the concept of "direct engagement" very confusing and suggests that the IAASB further clarify and provide examples of such engagement. The Institute also recommends the IAASB to develop illustrative reports to improve consistency of presentation.

- (ii) Consultation Paper on Enhancing the Value of Auditor Reporting: Exploring Options for Change

The Institute's [submission](#) to IAASB Consultation Paper on Enhancing the Value of Auditor Reporting: Exploring Options for Change supports continuing efforts to encourage debate to clarify the role of auditors and stakeholders expectations.

The Institute believes that the reality of the current situation is that there are both "expectations" and "information" gaps and that action will have to be taken to address some of the perceptions of auditor reporting. It is particularly important to address the "information gap" as mentioned in the consultation paper as this has implications for the efficiency of capital markets and the cost of capital. If actions taken in this respect result in changes in the scope of audit, then consideration must be given to potential implications for auditor liability and particularly to ensure that scope amendments do not result in excessive liability burdens.

The Institute is also of the firm view that audit quality is paramount and that any proposed changes to the scope of an audit or the form of auditor reporting should only be implemented if they do not have a negative effect on audit quality.

In relation to the expectations gap, it is agreed that there continues to be a difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is. Accordingly, clarification of auditor and management responsibilities should be better communicated and understood. To achieve this, there is a need for education of all parties, which should be more than just an "IAASB outreach" to its usual stakeholders. Education of users should also cover the auditors' responsibilities relating to fraud under existing professional standards, and that the current audit model is not designed to provide comfort on the financial health of a company but rather it results in an auditor's opinion as to whether the financial statements prepared by management show a true and fair view in accordance with a relevant financial reporting framework.

Stakeholders who consider that there would be benefits in extending the scope of audit should clearly understand that extending the scope of audit may result in additional costs to be borne by the company, especially

when auditors are required to perform extended services which require additional knowledge and expertise. In this regard, the Institute is of the view that any resultant changes in audit scope and audit reporting should be restricted to audits of listed entities and public interest entities. Investors or other users of private companies' financial statements typically have access to additional information from the entity and therefore changes to audit of private companies' financial statements may result in costs that exceed the derived benefits.

International Meetings

7. International Accounting Standards Board

The IASB met on 19-22 September 2011 and discussed the following topics:

- Annual improvements
- Asset and liability offsetting
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- IFRS Interpretations Committee: Update from last meeting
- IFRS 1 *First-time Adoption of IFRSs*- Prospective application provisions for first-time adopters
- IFRS 2 *Share-based payment*
- IFRS 8 *Operating Segments*-Aggregation criteria and identification of the CODM
- IFRS 9: Financial instruments: hedge accounting
- Impairment
- Insurance contracts
- Leases
- Macro hedge accounting

- Put options written over non-controlling interests

Click to view the IASB Update on the [19-22 September](#) meeting. The IASB next meets in October 2011.

8. IFRS Interpretations Committee

The IFRS Interpretations Committee met on 8-9 September 2011 and discussed the following topics:

- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – levies charged for participation in a market on a specified date
- IFRS Interpretations Committee agenda decisions
- IFRS Interpretations Committee tentative agenda decisions
- IFRS Interpretations Committee other issues considered
- Issues considered for *Annual Improvements*
- IFRS Interpretations Committee work in progress
- IFRS Interpretations Committee tentative agenda decisions on IAS 12 *Income Tax* – rebuttable presumption to determine the manner of recovery

Paragraph 51C of IAS 12 contains a rebuttable presumption, for the purposes of recognizing deferred tax, that the carrying amount of an investment property measured at fair value will be recovered through sale. The Committee received a request to clarify whether that presumption can be rebutted in cases other than the case described in paragraph 51C.

The Committee noted that a presumption is a matter of policy in applying a principle (or an exception) in IFRSs in the absence of acceptable reasons to the contrary and that

it can be rebutted when there is sufficient evidence to overcome the presumption. Because paragraph 51C is expressed as a rebuttable presumption and because the sentence explaining the rebuttal of the presumption does not express the rebuttal as 'if and only if', the Committee thinks that the presumption in paragraph 51C of IAS 12 can be rebutted in other circumstances as well, provided that sufficient evidence is available to support that rebuttal.

However, the Committee understands that the IASB's intention on introducing a rebuttable presumption in paragraph 51C was to remove the subjectivity in the determination of the expected manner of recovery in paragraph 51. As a result, the Committee thinks that, if the presumption is rebutted, the resulting deferred tax should reflect recovery of the carrying amount entirely through use, rather than be based on any dual purpose analysis.

The Committee thinks that the standard is clear and that diversity in practice on the rebuttal of the presumption should not emerge. Consequently, the Committee decided not to add this issue to its agenda.

Click to view the IFRIC Update on the [8-9 September](#) meeting. The IFRS Interpretations Committee next meets in November 2011.

9. International Auditing and Assurance Standards Board

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

10. International Ethics Standards Board for Accountants

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

Useful Resources

11. Publications

The following are publications on various topics:

- (i) [Effect analysis on consolidated financial statements](#) by IASB
- (ii) [Summary](#) of new and revised pronouncements by Deloitte
- (iii) HKAS 19 (2011) *Employee Benefits*:
 - [Practical guide](#) by PwC
 - [Investor Perspectives](#) by IASB
- (iv) IFAC [Newsletter](#) on recent sovereign debt crisis
- (v) [News](#) by Compliance Week on US convergence
- (vi) IASB [work plan](#) Update

Comment Due Dates

9 November 2011: IASB Request for Views on Agenda Consultation 2011

14 November 2011: IIRC Discussion Paper *Towards Integrated Reporting – Communicating Value in the 21st Century*

15 December 2011: IASB ED of *Investment Entities*

Specialist Practices, Business Members and Advocacy

Professional Accountants in Business

12. IIRC Discussion Paper on Integrated Reporting

The important IIRC discussion paper on [Towards Integrated Reporting - Communicating Value in the 21st Century](#) (see also item 4 above) puts forward initial proposals for the development of an international integrated reporting framework, which will bring together material information about an organization's strategy, governance, performance and prospects. It also outlines the next steps toward its creation and adoption. The discussion paper follows up on a number of the themes and recommendations of the IFAC report [Integrating the Business Reporting Supply Chain](#).

The Institute has issued an [Invitation to Comment](#) on the discussion paper.

Corporate Finance

13. Institute Comments on SFC Proposed Amendments to Takeovers Code

As reported in [TechWatch no. 107](#), the Securities and Futures Commission ("SFC") released a [consultation paper](#) on proposed amendments to the Takeovers Code in relation to (i) property valuation requirements, (ii) confirmations of independence of placees and (iii) timing of payment for acceptances.

In its [submission](#), the Institute expresses some reservations about the proposals relating to confirmation of placees' independence, as there are areas where further clarification is needed, particularly in relation to implementation aspects.

14. Rule Changes to Refine Evidential Requirements for Proving Professional Investor Status

On 9 September, the SFC gazetted the [Securities and Futures \(Professional Investor\) \(Amendment\) Rules 2011](#) ("Amendment Rules") to implement proposals to refine the requirements for evidencing whether a person qualifies as a high-net-worth professional investor under the Securities and Futures (Professional Investor) Rules. The proposals were the subject of a public consultation conducted in October 2010, and the conclusions were published in February 2011. See [TechWatch no. 101](#) (item 13) for details.

The Amendment Rules will be tabled before the Legislative Council for negative vetting on 12 October 2011. The amendments are expected to come into effect by mid-December 2011.

15. Reminder of Credit Risks Associated with Structured Product Issuers

In light of the economic environment in Europe and the recent market volatility, the SFC and the Hong Kong Exchanges and Clearing ("HKEx") remind investors holding uncollateralized structured products, such as derivative warrants and Callable Bull/Bear Contracts, that they should pay close attention to the financial strength and credit worthiness of structured product issuers. Disclosure of issuers' credit risk and credit worthiness can be found in issuers' listing documents posted on the [HKExnews](#) website, and credit ratings of issuers are available on the [Issuers Credit Rating](#) page.

Investors are also reminded to ensure that they understand the nature of structured products, study the risk factors set out in the listing documents and, where necessary, seek professional advice before making investments in such products. Further information on risks associated with structured products is available on the [Understanding Risks of Structured Products](#) page of the HKEx website.

16. Report on SFC's Adherence to Operational Procedures

The Process Review Panel ("PRP") for the SFC is an independent body established by the Chief Executive in November 2000 to review the fairness and reasonableness of the internal operational procedures of the SFC and ensure that those procedures are consistently adhered to by the SFC.

The PRP has recently published its [2010-11 report](#). From the 57 cases reviewed in 2010-11, the PRP concluded that the SFC had generally followed its internal procedures and complied with operational guidelines in handling those cases. PRP also made further observations and recommendations to the SFC for enhancement of procedures or guidelines.

Insolvency and Corporate Restructuring

17. Institute Comments on DPB Guidance Note on Accrued Interest Estimations

The Deposit Protection Scheme ("DPS") Ordinance empowers the Hong Kong Deposit Protection Board ("DPB") to determine the amount of interest accrued on deposits, or liabilities, by making an estimate that is reasonable and appropriate in the circumstances, where there is uncertainty as to the entire accrued interest amount; the time to estimate would unduly delay compensation payments; or the calculation would not be cost beneficial. A [Guidance Note on Accrued Interest Estimation](#) has been developed by the DPB to provide a clear understanding of the conditions, principles and approaches to be adopted when the DPB exercises its powers in relation to interest estimations.

The Institute was invited to comment on the guidance note. The Institute's [submission](#) points out that the appropriateness/reasonableness of the suggested approaches in estimations of accrued interest have to be considered in the context of the entire pay-out operation. In the absence of a trial payout exercise, it would be difficult to give a definite view on whether the suggested approaches are reasonable.

Also, liquidators of a failed bank may have to accurately calculate interest entitlement and to obtain court approval for the approach adopted by the DPB in the estimation of interest. As discrepancies arising in the calculation process due to the application of estimates will need to be identified, ultimately, the relevant cost would be passed on to the creditor. Therefore, the Institute recommends that the approach adopted in the approximation of interest should reflect the overall cost of approximation and the subsequent recalculation of the amounts for the purpose of admitting claims in the liquidation.

Given the possible need for further calculation of interest by liquidators, the Institute asks that liquidators should be consulted in an early stage when it is likely that an approximation policy is to be adopted so as to ensure that recalculation costs are kept to an appropriate level.

Taxation

18. Enhancement of One-stop Company and Business Registration and One-stop Notification of Change of Company Particulars

The time taken in updating the business register and issuing amended business registration certificates has been shortened – see [FAQs 5, 9, 20, 21 and 22](#) on the Inland Revenue Department ("IRD")'s website. Arrangements are also available for companies which are in urgent need of the amended business registration certificates – see [FAQs 20a and 21a](#).

19. Tax Refunds

Click [Refund of Tax](#) page of the IRD website to read more about tax refund matters, for example, relating to loss/non-receipt of refund cheques and amendment of payee's name on refund cheques.

20. Security for IRD's Electronic Services

Click [Electronic Services: Information Security](#) page of the IRD website to read more about information security relating to IRD's

electronic services and the official websites that operate them.

Legislation & Other Initiatives

21. Companies Registry Update

- (i) [External circular no. 1/2011](#) has been updated by adding a new paragraph 7. The new paragraph reminds companies that, notwithstanding that the change of registered address of a local company, and the principal place of business in Hong Kong of a non-Hong Kong company, are covered by the one-stop notification service, there remains a requirement for companies to notify the Commissioner of Inland Revenue of a change of business address under the Business Registration Ordinance.
- (ii) The Companies Registry ("CR") has published:
 - a new information pamphlet on [Certificate of Continuing Registration](#)
 - updated information pamphlets on
 - [Filing of Annual Return by a Non-Hong Kong Company](#)
 - [Deregistration of a Defunct Solvent Private Company](#)
 - the following commonly filed [specified forms](#) in fillable PDF format:
 - AR1 – Annual Return
 - AR3 – Annual Return – Certificate of no change (Private company having a share capital)
 - D2A – Notification of change of secretary and director (Appointment/Cessation)
 - D2B – Notification of change of particulars of secretary and director
 - D4 – Notification of resignation of secretary and director

- NC1 – Incorporation Form (Company limited by shares)
- NC1G – Incorporation Form (Company not limited by shares)
- N1 – Particulars of a non-Hong Kong company registered in Hong Kong
- R1 – Notification of change of address of registered office
- **e-Form templates** of NC1, NC1G and NC2 for the Third Party Software Interface

Useful Resources

22. 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.

23. Other Publications

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

(i) HKEx published:

- a listing decision in relation to how non-compliant financing would affect a listing applicant seeking a listing on HKEx (**LD19-2011**)
- Updated guidance for Chapter 21 companies (**HKEx-GL17-10**)
- **Report** on initial public offering ("IPO") applications, delisting and suspensions (as at 30 September)
- **Update** on HKEx RMB Product Developments (as at 5 September)
- **Presentation** on RMB follow-on fund raising in Hong Kong

- **Update** on listed company Information and related trading arrangements
 - **Seminar and workshop materials** on environmental, social and governance reporting
- (ii) SFC published:
- September 2011 issue of **InvestEd Intelligence**, which reminds investors to understand the product structures and monitor closely the credit risks of product issuers. It also explains how investors can track trading activities and safeguard investments using contract notes and account statements.
 - **Know Your Rights in the Sales Process** booklet to help investors understand the SFC's new investor protection measures, which aim to raise standards of selling practices.
- (iii) Articles on corporate governance by Deloitte:
- **Audit committee brief – Auditor's report may undergo significant changes**
 - **Spotlight: The nominating and corporate governance committee**
 - **Risk intelligent proxy disclosures – 2011: Have risk-oversight practices improved?**
 - **Dodd-Frank turns one — A recap of the Act's first year**