



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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Financial Reporting, Auditing and Ethics

New!

1. Financial Reporting Forum 2010 – Stay tuned for developments of HKFRS and IFRS

Sir David Tweedie, chairman of the IASB, is visiting Hong Kong to attend a Financial Reporting Forum – Stay tuned for developments of HKFRS and IFRS held by the Institute on 16 April 2009 to talk about IFRS developments, the outlook for the U.S. acceptance of IFRS, what will happen now that the European Union has decided not to fast track IFRS 9 *Financial Instruments* and the IASB's work plan.

The Forum will also cover the following topics:

- HKFRS for Private Entities
- HKFRS 9 *Financial Instruments*
- IASB exposure draft on Expected Loss Impairment Model
- IASB proposed limited amendments to IAS 12 *Income Taxes*
- IASB project on replacement of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

To secure your seats, please register early by completing the [registration form](#) and returning it to the Institute.

2. New TUE programme for April to June 2010

A new **TUE programme** has been developed to deliver sessions on fundamental topics for the second quarter of 2010 to provide members and participants with detailed explanations of the following standards:

- HKAS 16 *Property, Plant and Equipment*, HKAS 23 *Borrowing Costs* & HK(IFRIC)-Int 1 *Changes in Existing Decommissioning,*

Restoration and Similar Liabilities

- HKAS 2 *Inventories*
HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- HKAS 17 *Leases*
- HKAS 11 *Construction Contracts*
HKAS 40 *Investment Property*
- HKAS 38 *Intangible Assets*
HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- HKFRS 3 *Business Combinations*
- HKAS 28 *Investments in Associates*
HKAS 31 *Interests in Joint Ventures*
HKAS 24 *Related Party Disclosures*
- An overview of updates on new and amended HKFRSs and Interpretations

Click [here](#) for enrolment details and more information on the new TUE programme.

3. Webcasts in relation to HKFRS for Private Entities

The Institute has produced two webcasts on (i) Financial Reporting Lunch Forum-HKFRS for Private Entities as a Financial Reporting Option and (ii) Highlights for the Proposed HKFRSs for Private Entities, to explain the Council's intent and proposals in respect of HKFRSs for Private Entities and to provide a brief section-by-section highlights on HKFRS for Private Entities.

Click [here](#) to access the webcasts.

4. Financial Reporting and Auditing Alert – Issue 8

The Institute issued **Financial Reporting and Auditing Alert – Issue 8** to report the findings on practice reviews of practices with listed clients, including:

- Client acceptance and continuance

- Independence
- Valuation of assets
- Subcontracting audit works
- Going concern
- Communications

Members' Handbook

5. Update No. 79

Update No. 79 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.

Financial Reporting

6. HKFRS Insights on HKAS 18 Revenue

The Institute held a TUE on 16 March 2010 to cover a detailed discussion of HKAS 18 *Revenue* and an overview of the related Interpretations.

The following are some kind reminders: Revenue is the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an entity (such as sales of goods, sales of services, interest, royalties, and dividends).

Revenue should be measured at the fair value of the consideration received or receivable. An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue. However, exchanges for dissimilar items are regarded as generating revenue. If the inflow of cash or cash equivalents is deferred, the fair value of the consideration receivable is less than the nominal amount of cash and cash equivalents to be received. The arrangement effectively constitutes a financing transaction. Accordingly, the fair value of the consideration is determined

by discounting all future receipts using an imputed rate of interest.

Recognition, as defined in the *Framework*, means incorporating an item that meets the definition of revenue in the income statement when it meets all of the following criteria:

- It is probable that any future economic benefit associated with the item of revenue will flow to the entity.
- The amount of revenue can be measured reliably.

HKAS 18 provides guidance for recognising revenue from the sale of goods, rendering of services and the use by others of the entity's assets yielding interest, royalties and dividends.

Apart from HKAS 18, members should also consider the following related Interpretations, where applicable:

- HK(IFRIC)-Int 13 *Customer Loyalty Programmes* addresses the accounting by the entity that grants customer loyalty award credits.
- HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate* addresses whether an agreement for the construction of real estate is within the Scope of HKAS 11 *Construction Contracts* or HKAS 18 and when revenue from the construction of real estate should be recognised.
- HK(IFRIC)-Int 18 *Transfers of Assets from Customers* addresses divergent practice in the accounting by recipients for transfers of property, plant and equipment from 'customers'.
- HK(SIC)-Int 31 *Revenue – Barter Transactions Involving Advertising Services* concludes that revenue from a barter transaction involving advertising services can never be measured reliably at the fair value of the advertising services received.
- *Improvements to HKFRS 2008* states that the proceeds from the sale of property, plant

and equipment previously held for rental should be recognised as revenue in accordance with HKAS 18.

- *Improvements to HKFRS 2009* provides guidance in determining whether an entity is acting as a principal or as an agent.

7. FRSC Minutes

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

- Proposed meeting schedule for 2010
- Terms of Reference and Proposed Work Plan for 2010
- IFRS for SMEs
- IFRIC agenda decision on HKICPA Requests for Interpretation
- 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 ED on Management Commentary
- Consideration of IASB Discussion Documents
- Ranking IASB projects by priority for NSS discussion
- Amendments to HKFRS 1 – Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters

8. Invitation to Comment on IASB ED

- (i) IASB ED of *Conceptual Framework For Financial Reporting Entity: The Reporting Entity*

The Institute has issued an [Invitation to Comment](#) on IASB ED of *Conceptual Framework For Financial Reporting: The Reporting Entity*, with comments requested by 2 July 2010.

The ED proposes what a reporting entity is and when an entity controls another entity. In summary, under the proposals:

- A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided.
- An entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself. If an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.
- A portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished objectively from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity.

- (ii) IASB ED of *Measurement of Liabilities in IAS 37*

The deadline of [Invitation to comment](#) on IASB ED of *Measurement of Liabilities in IAS 37* has been extended to 3 May 2010.

9. Institute Comments on IASB ED on Management Commentary ("MC")

The Institute's [submission](#) is supportive of the high level principles-based approach for the content of a MC taken in the ED, but have requested for some additional application guidance. Given that each entity possesses some uniqueness in respect of its business model, management structures and operating

Environment, etc, it is agreed that a "one size fits all" approach is inappropriate for MC. It is considered that the detailed requirements for the contents of the MC should continue to be set by local regulators and therefore this should not be a mandatory standard by the IASB.

Also, the Institute agrees with the IASB that management must identify the key information and highlight it in a manner which is most appropriate to their business, reporting style and cultural setting and that it would be inappropriate to impose prescriptive requirements in the guidance. Furthermore, it is noted that MC is just one element of stakeholder reporting. Stakeholder reporting in a broader sense includes the management discussion and analysis, operating and financial review, corporate and social responsibility, environmental and risk reporting. Therefore, it is believed that guidance produced should take a more holistic approach to MC and related areas.

Ethics

10. Ethics Committee Minutes

This [EC minutes](#) on 18 December 2009 covers:

- Revised HKICPA Code of Ethics for Professional Accountants
- Adoption of the Code of Ethics for Reporting Accountants
- Discussion on s18A of the Professional Accountants Ordinance

International Meetings

11. International Accounting Standards Board

The IASB met on 3, 11, 15-24 March 2010, and discussed the following topics:

- Financial instruments: hedge accounting
- Financial statement presentation
- Fair value measurement

- Financial instruments with characteristics of equity
- Annual improvements
- Consolidation
- Derecognition
- Financial instruments: classification and measurement
- Financial instruments: updates
- IFRIC update
- Income taxes
- Insurance contracts
- Joint arrangements
- Leases
- Liabilities – IFRS to replace IAS 37
- Revenue recognition
- SAC update

Click to view the IASB Update on the meetings on [3 March](#), [11 March](#), [15-24 March](#) and [supplement to March Board meeting](#). The IASB next meets in April 2010.

12. International Financial Reporting Interpretations Committee

The IFRIC met in March 2010 and discussed the following topics:

- Accounting for production stripping costs
- Vesting and non-vesting conditions
- Agenda decisions
- Tentative agenda decisions
- Annual improvements

Click [here](#) to view the IFRIC Update on the meeting in March. The IFRIC next meets in May 2010.

13. 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.

14. 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

15. Publications

The following are publications on various topics:

- (i) Staff summaries by the Institute
 - [Financial Instruments](#)
 - [Related Party Disclosures](#)
 - [Extinguishing Financial Liabilities with Equity Instruments](#)
- (ii) Issues to focus for December 2009 reports
 - [HKFRS News](#) by PwC
- (iii) Practical guide to new IFRSs
 - [Guide](#) by PwC
- (iv) IFAC publications and resource materials
 - [Website](#) by IFAC
- (v) SEC reaffirms US commitment to IFRS
 - [Outlook](#) by Ernst & Young

Comment Due Dates

3 May 2010: IASB Exposure Draft of *Measurement of Liabilities in IAS 37*

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

2 July 2010: IASB Exposure Draft of *Conceptual Framework For Financial Reporting: The Reporting Entity*

Specialist Practices, Business Members and Advocacy

Corporate Finance

16. Consultation on Statutory Backing for Price Sensitive Information Disclosure Requirements

On 29 March 2010, the government released a [Consultation Paper](#) on the proposed statutory codification of certain requirements for listed companies to disclose price sensitive information ("PSI").

Under the proposals, the Securities and Futures Ordinance ("SFO") (Cap. 571) will include requirements for a listed corporation to disclose to the public, as soon as practicable, PSI that has come to its knowledge, and officers of listed corporations will have to take all reasonable measures to ensure that proper safeguards exist to prevent the breach of this requirement. The consultation proposal also sets out a number of statutory "safe harbours", allowing listed corporations not to disclose, or to delay disclosing, certain types of PSI.

As proposed, the statutory disclosure requirements will be enforced by the Securities and Futures Commission ("SFC"), and civil sanctions will be imposed on those breaching the requirements. Potential sanctions include a fine of up to \$8 million on the listed corporation and/or the director or officer breaching the requirements, disqualification of a director or officer from being a director or managing a listed corporation for up to five years.

In defining PSI, it is proposed to adopt the existing concept in the SFO of "relevant information" and the term "inside information" will be used to refer to the PSI that a listed corporation needs to disclose.

In order to help market practitioners understand the government's proposals, and facilitate compliance with the statutory disclosure requirements, the SFC will provide guidance to

explain what constitutes PSI and when the safe harbor provisions will be applicable. Accordingly, the SFC is soliciting public comments on a draft set of guidelines, [Draft Guidelines on Disclosure of Inside Information](#), in parallel with the government consultation paper.

The consultation period for both the consultation paper and the SFC draft guidelines will last for three months, ending on 28 June 2010.

Members are welcome to submit views to the Institute, under the heading "Price Sensitive Information", by emailing on or before 31 May 2010 to commentletters@hkicpa.org.hk.

Taxation

17. Update on Hong Kong's Double Tax Agreements

The Inland Revenue (Amendment) Ordinance 2010 and the Inland Revenue (Exchange of Information) Rules commenced on 12 March 2010. These legislative changes will enable Hong Kong to enter into comprehensive double taxation agreements ("CDTAs") based on the OECD's 2004 exchange of information article. Following the passage of this legislation, three new agreements were signed, with [Brunei](#), [Indonesia](#) and [Netherlands](#), thereby expanding Hong Kong's CDTA network to eight treaty partners (existing partners being Belgium, the Mainland, Thailand, Luxembourg and Vietnam).

Other CDTAs have been concluded, but not yet signed, with Austria, France, Hungary, Ireland and Liechtenstein. Agreement in principle has also been reached with [Japan](#). Hong Kong is also in negotiation with existing partners to upgrade the exchange of information article in relevant CDTAs to the 2004 version.

18. E-filing Available for Some Profits Tax Returns

E-filing of profits tax returns is now possible for corporations and partnerships satisfying specified conditions, for filing 2009-10 tax returns issued on or after 1 April 2010. One of the conditions applicable is that the gross income of the corporation or partnership must

not exceed HK\$2,000,000. Please click to access the Inland Revenue Department ("IRD")'s [guide](#) on the [specified conditions, key points on using the services](#) and [FAQs](#).

19. IRD News

The following notices have recently been issued by the IRD on the department's website:

- **Block extension scheme for lodgement of 2009-10 tax returns:** Circular to tax representatives advising the tax return lodgement arrangements for the forthcoming year. IRD will periodically post information in relation to the preparation and lodgement of profits tax returns in the "[Tax representatives' corner](#)".
- **Updates on termination payments:** Information on what payments an employee and employer should report as taxable income when an employment has been terminated.

Legislation & Other Initiatives

20. Institute Submits Views on the Companies Bill First Phase Consultation

As reported in [TechWatch No. 87](#), the government released the first phase consultation on the draft Companies Bill, under the Companies Ordinance Rewrite project, to seek views on draft provisions and on a number of specific issues. The Institute issued a [submission](#) commenting on various matters.

On the question of whether the "headcount test" should be retained or abolished, the submission supported abolishing the "headcount test" for members' schemes in relation to listed companies, particularly given that the additional requirements in the Takeovers Code issued by the SFC already provided sufficient safeguards for the interests of minority shareholders.

As an additional protection, it was suggested that consideration could be given to adding a general provision in the Companies Ordinance providing aggrieved parties with a right to apply to the court where they believed a scheme was

prejudicial to the interests of the members generally or some part of the members.

On the other hand, the Institute suggested that the headcount test should be retained in respect of creditors' schemes as protection for smaller creditors, because these schemes would not benefit from the safeguards under the Takeovers Code, and smaller creditors would not enjoy other protections available to minority shareholders.

While the Institute did not see any immediate need to make changes to the current disclosure regime in respect of directors' residential addresses and identity numbers, the submission provided comments on the most suitable approach to be adopted to deal with various practicable problems, were it found necessary or desirable make changes in the future.

The Institute considered that in codifying the directors' common law standard of care, skill and diligence in the statute, careful attention needed to be paid to the drafting, to ensure that the statute did not inadvertently go beyond the existing common law standard or create any ambiguity.

21. Seminars on Anti-money Laundering/ Combating Terrorist Financing ("AML/CFT")

The Narcotics Division, Hong Kong SAR Government and the Institute jointly organised two AML/CFT seminars for Institute members in March (one each in English and Chinese), which explained the role of accountants in preventing money laundering/ terrorist financing ("ML/TF"). To read the presentation slides on the topics covered at the seminars, please click the links next to each topic.

- International standards on regulating designated non-financial businesses and professions and the way forward ([English](#), [Chinese](#))
- Suspicious transaction reporting: legal obligations and protection ([English](#), [Chinese](#))

- Suspicious transaction reporting: statistics and case examples ([English](#), [Chinese](#))
- Experience sharing session ([English](#), [Chinese](#) presentation supplemented with English slides)
- [Effective use of specialists by audit committees](#)
- [How the enhanced SEC disclosures may influence board composition and the effectiveness of corporate governance](#)

The seminars proved to be very popular and the Institute plans to organise a repeat English session. Look out for more details. For further background information on the current AML/CFT law and requirements in Hong Kong, see the Institute's [legal bulletin 1](#), "Requirements on anti-money laundering, anti-terrorist financing and related matters".

- (ii) OECD - [Corporate governance and the financial crisis](#)

22. Latest Notices on AML/CFT

Members may wish to note that the following statement and report have been published by the financial action task force ("FATF"):

- [Improving global AML/CFT compliance: on-going process](#): Draws the attention of FATF members to jurisdictions with deficiencies that pose ML/TF risks in the international financial system.
- [Money laundering vulnerabilities of free trade zones](#): This report covers the ML/TF risks associated with free trade zones, with the inclusion of case studies to demonstrate how free trade zones can be misused for ML/TF purposes.

Useful Resources

23. New Books in the Library

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

24. Other Publications

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

- (i) Articles on corporate governance by Deloitte