



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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Specialist Practices, Business Members and Advocacy by:
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Financial Reporting, Auditing and Ethics

New!

1. Financial Reporting Forum 2010

Robert Garnett, chairman of the IFRS Interpretations Committee (formerly known as the "IFRIC") and member of the IASB, is visiting Hong Kong to attend a Financial Reporting Forum on 22 July 2010 to talk about IFRS developments and the challenges facing IFRS Interpretations Committee in dealing with interpretation requests.

The Forum will also cover the following topics:

- IASB's proposed limited amendments to IAS 12 *Income Taxes*
- Revenue recognition
- Leases
- Consolidation and derecognition
- Financial instruments – IFRS 9 (Phase 1)
- IASB Exposure Draft ("ED") on financial instruments: amortized cost and impairment

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

2. Re-run HKFRS for Private Entities Workshops

The Institute will re-run two HKFRS for Private Entities Workshops in August 2010. This education initiative for the HKFRS for Private Entities Workshops will take place over three days. Each day will be broken down into a number of sessions. Each session will include plenary instruction followed by group break-out exercises and group feedbacks. The agenda of the workshops is based largely on the IASB training materials with practical guidance on application of all sections of the standard.

Click [here](#) for enrolment details.

3. Re-run Seminar on the Revised Code of Ethics

The Institute issued the Revised Code of Ethics in June 2010, which will be effective from 1 January 2011. The Revised Code of Ethics maintains the principle-based approach and covers guidance on accepting payment in an agent-principal relationship under the Prevention of Bribery Ordinance.

The Institute will re-run this seminar on 7 September, 5 October and 2 November 2010 to discuss the key changes in the Code of Ethics.

Click [here](#) for enrolment details.

Members' Handbook

4. Handbook Updates No. 86, 87 & 88

- (i) **Update No. 86** relates to issuance of PN 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* and PN 900 (Clarified) *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Report*.

The purpose of PN 740 is to provide guidance to auditors as to their responsibilities and procedures when an auditor is engaged by a Hong Kong listed issuer to report on continuing connected transactions pursuant to Chapter 14A of the Main Board Listing Rules or Chapter 20 of the GEM Listing Rules issued by The Stock Exchange of Hong Kong Limited. This PN is effective for reporting on continuing connected transactions disclosed in annual reports for periods ending on or after 31 December 2010 with early adoption permissible.

Click [here](#) to book TUE on PN 740 on 28 September 2010.

PN 900 (Clarified) is issued to reflect compliance with the requirements of HKSA 700 (Clarified) *Forming an Opinion and Reporting on Financial Statements*, HKSA 705 (Clarified) *Modifications to the Opinion in the Independent Auditor's Report* and

HKSA 706 (Clarified) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, for audits of financial statements for periods beginning on or after 15 December 2009.

(ii) **Update No. 87** 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. 88** contains the following amendments:

- the Code of Ethics for Professional Accountants (the "Code") is revised so as to maintain convergence with the revised Code of Ethics for Professional Accountants issued by the IESBA in July 2009. The Code is revised to clarify requirements for all professional accountants and significantly strengthen the independence requirements of auditors. The Code is effective from 1 January 2011.

Click [here](#) to book TUE on the revised Code of Ethics.

- HKSA 505 (Clarified) is the last pronouncement issued as part of the International Convergence Programme with the IAASB's Clarity Project.
- PN 710 *The Auditors' Statement on the Summary Financial Report* is updated to reflect that it will be superseded by HKSA 810 (Clarified) *Engagements to Report on Summary Financial Statements* for engagements for periods beginning on or after 15 December 2009.

Financial Reporting

5. HKFRS Insights on Amendments to HKFRS 1 *First-time Adoption of HKFRSs*

The Institute issued the *Improvements to HKFRSs 2010* in May 2010 which included amendments to HKFRS 1 *First-time Adoption of HKFRSs*. It is effective for annual periods beginning on or after 1 January 2011. Earlier application permitted.

Accounting policy changes in the year of adoption

HKFRS 1 is amended to clarify that if a first-time adopter changes its accounting policies or its use of the exemptions in HKFRS 1 after it has published an interim financial report in accordance with HKAS 34 *Interim Financial Reporting* but before its first HKFRS financial statements are issued, it should explain those changes and update the reconciliations between previous GAAP and HKFRSs. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* does not apply to such change.

Revaluation basis as deemed cost

HKFRS 1 extended the scope of paragraph D8 for the use of the deemed cost exemption for an event-driven fair value. In some jurisdictions, local law requires an entity to revalue its assets and liabilities to fair value for a privatization or IPO and to treat the revalued amounts as deemed cost for the entity's previous GAAP. Before the amendment made in May 2010, if that revaluation occurred after the entity's date of transition to HKFRSs but during the period covered by the first HKFRS financial statements, the entity could not have used that revaluation as deemed cost for HKFRSs. Therefore, the entity would have had to prepare two sets of measurements for its assets and liabilities – one to comply with HKFRSs, and one to comply with local law.

The IASB considered this unduly onerous. Therefore, *Improvements to HKFRSs 2010* amended paragraph D8 to allow an entity to recognize an event-driven fair value measurement as deemed cost when the event

occurs, provided the measurement date is within the period covered by its first HKFRS financial statements.

In addition, the same relief should apply to an entity that adopted HKFRSs in periods before the effective date of HKFRS 1 or applied HKFRS 1 in a previous period, provided the measurement date is within the period covered by its first HKFRS financial statements.

For detailed guidance, members may refer to:

- **Staff summary** by the Institute
- **HKFRSs/ IFRSs update** by BDO
- **IAS plus update** by Deloitte
- **Focus** by Grant Thornton
- **Briefing sheet** by KPMG
- **HKFRS news** by PwC

6. FRSC Minutes

This **FRSC minutes** on 4 May 2010 covers:

- Accounting Application Issues
- HKFRS for Private Entities
- Report on the National Standard Setters Meeting (14-15 April)
- Report on the IASB Tokyo Outreach Meeting on IAS 37 ED
- IASB ED of Measurement of Liabilities in IAS 37
- Consideration of IASB Discussion Documents
- Annual Accounting Update 2010
- Visit of Mr. Robert Garnett (IASB Member) on 22 July 2010

7. Invitation to Comment on Draft Pronouncements

- (i) IASB Request for Comment on FASB *Financial Instruments* ED

The Institute has issued an **Invitation to Comment** on IASB Request for Comment on the proposals from the FASB for a new comprehensive standard on financial instruments, with comments requested by 17 September 2010.

Feedback will be helpful to the FASB when it re-deliberates its proposals and finalizes any requirements. The IASB will use that feedback when it considers how to reconcile any differences between IFRS requirements and US GAAP. Because this project is part of the global convergence project, it is important for the FASB to receive feedback on the proposed model from the international community.

Under the FASB's proposals, many financial assets and financial liabilities would be measured at fair value in the primary financial statements. This is different from the mixed measurement model that is used in IFRS 9 *Financial Instruments* for financial assets. A comparison of the FASB's and the IASB's proposed models for financial instruments is set out in the Appendix of the Invitation to Comment.

- (ii) International Valuation Standards Council ("IVSC") ED *Proposed New International Valuation Standards*

The Institute has issued an **Invitation to Comment** on IVSC ED *Proposed New International Valuation Standards*, with comments requested by 20 August 2010.

The IVSC project to improve its standards follows calls from global and national regulators for the standards of international valuation practice to be raised.

The proposed International Valuation Standards ("IVS") cover valuations for most types of asset, including for the first time a

proposed standard for financial instruments. The standards also reflect current developments in the IFRS, which increasingly require assets and liabilities to be valued.

The proposed IVS are not endorsed by the IASB or otherwise authoritative. However, IVS may become increasingly important in valuations and are being promoted as a source of authority and consistency in valuations.

An overview and questions for respondents is set out in the Appendix of the Invitation to Comment.

(iii) IASB ED of *Revenue from Contracts with Customers*

The Institute has issued an [Invitation to Comment](#) on IASB ED of *Revenue from Contracts with Customers*, with comments requested by 8 October 2010.

The proposal would create a single revenue recognition standard for IFRSs and US GAAP that would be applied across various industries and capital markets.

The publication of this joint proposal represents a significant step forward toward global convergence in one of the most important and pervasive areas in financial reporting. The proposed standard would replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. In US GAAP, it would supersede most of the guidance on revenue recognition in Topic 605 of the *FASB Accounting Standards Codification*.

The core principle of the draft standard is that an entity should recognize revenue from contracts with customers when it transfers goods or services to the customer in the amount of consideration the entity receives, or expects to receive, from the customer. The proposed standard would improve both IFRSs and US GAAP by:

- removing inconsistencies in existing requirements;

- providing a more robust framework for addressing revenue recognition issues;
- improving comparability across companies, industries and capital markets;
- requiring enhanced disclosure; and
- clarifying the accounting for contract costs.

In developing the proposals, the boards considered more than 220 comment letters received on their discussion paper, *Preliminary Views Revenue Recognition in Contracts with Customers*, in addition to feedback received from interested parties through an extensive outreach programme, including workshops with preparers. The boards will undertake further outreach activities during the exposure draft's comment period to ensure that the views of all interested parties are taken into consideration when finalizing the standard.

Audit & Assurance

8. AASC Minutes

This [AASC minutes](#) on 18 May 2010 mainly covers:

- HKICPA Invitation to Comment on ISAE 3420 *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*
- Revised PN 900 *Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard*
- Revised *Circular on Audit of Financial Statements of Owners' Corporations of Buildings – Audit issues*
- Auditing and Assurance Standards Forum on 20 May 2010
- Annual Auditing Update Conference 2010

- Consultation Paper on Companies Ordinance Rewrite relating to Accounts and Audit

Ethics

9. Institute Comments on IESBA ED of Strategy and Work Plan 2010-2012

The Institute's [submission](#) indicated that it is overall supportive of the IESBA's proposed Strategy and Work Plan, 2010-2012. It is pleased to note that the IESBA will be allocating resources to the adoption and implementation of the Code.

All companies incorporated in Hong Kong are subject to a statutory audit and there are currently approximately 800,000 such companies with approximately 1,150 being listed companies and the rest primarily SMEs. Furthermore, approximately 83% of the accounting firms in Hong Kong are sole practitioners with another 13% having only two partners (this group is hereafter referred to as "SMPs").

In this regards, it is important that the IESBA allocates resources to the development of guidance arising from implementation issues on the Code, in particular, section 290 on "Independence - Audit and Review Engagements".

It is noted from paragraph (b) on page 12 of the ED that IESBA will prepare a document identifying the independence provisions in the Code related to Public Interest Entities. It is further stated that the document will be used in discussions with national standard setters and regulators. The Institute considers that this document will be very useful in enabling users to apply the provisions and therefore hopes that IESBA will make the document available to member bodies and hence to their members. It may well be appropriate to include specific reference to this as a project in Appendix 1 of the ED to ensure that it is given suitable prominence in the work plan.

In addition, IESBA may issue further adoption and implementation materials, for example case studies and an overview of the Code relevant to

SMPs. Such materials would be very helpful to member bodies in the implementation of the new Code and the Institute encourages IESBA to include these items in the work schedule.

International Meetings

10. International Accounting Standards Board

The IASB met on 1, 10 and 14-17 June 2010, and discussed the following topics:

- Consolidation
- Insurance contracts
- Leases
- Joint arrangements
- Balance sheet - offsetting
- Liabilities

Click to view the IASB Update on the meetings on [1 June](#); [10 June](#) and [14-17 June](#). The IASB next meets in July 2010.

11. IFRS Interpretations Committee

The IFRS Interpretations Committee next meets in July 2010. Click [here](#) for the next meeting's details.

12. International Auditing and Assurance Standards Board

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

13. International Ethics Standards Board for Accountants

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

Useful Resources

14. Strengthening audit quality

The Institute is introducing an initiative to promote an understanding of the meaning and need for audit quality. We recognize the importance of audit quality and the strength of the audit profession in maintaining public confidence in capital markets and we are committed to helping auditors and other stakeholders understand audit quality and the value of audit. Two new publications under the new audit quality initiative have been published:

- **Audit quality** – it explains the importance of audit quality and meaning of audit quality.
- **Audit committees and audit quality** – this guide is to enhance communication between the audit committee and the external auditor. It provides assistance to audit committee and other relevant stakeholders to better understand the role and scope of an external audit and engage more effectively with the external auditor.

15. Publications

The following are publications on various topics:

- (i) Interim financial information:
 - **Illustrative interim financial information 2010** by PwC
- (ii) IFAC Public Interest Oversight Board:
 - **Fifth public report** by the PIOB
- (iii) IFRS update:
 - **IFRSs in your pocket 2010** by Deloitte
 - **Briefing sheet** by KPMG
 - **A practical guide to new IFRSs 2010** by PwC

Comment Due Dates

16 July 2010: IASB Discussion Paper on *Extractive Activities*

20 August 2010: IVSC ED *Proposed New International Valuation Standards*

23 August 2010: IASB ED of Proposed Amendments to IAS 19 – *Defined Benefit Plans*

31 August 2010: IAASB ED on Proposed ISAE 3420 *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*

13 September 2010: IASB ED of *Presentation of Items of Other Comprehensive Income (Proposed amendments to IAS 1)*

17 September 2010: IASB Request for Comment on FASB *Financial Instruments* ED

8 October 2010: IASB ED of *Revenue from Contracts with Customers*

Specialist Practices, Business Members and Advocacy

Corporate Finance

16. SFC Publishes Consultation Conclusions

On 25 June 2010, the Securities and Futures Commission ("SFC") published the following consultation conclusions and announced that the relevant amendments took immediate effect.

- (i) Application of the Codes on Takeovers and Mergers and Share Repurchases ("Codes") to SFC-authorized real estate investment trusts ("REITs").

The [consultation conclusions](#) indicate that majority of the proposals to extend the Codes to REITs and to apply the market misconduct and disclosure of interests provisions to listed collective investment schemes ("CISs"), published in the January 2010 [consultation paper](#) (see [TechWatch no. 88](#)), have been adopted, with some amendments based on the responses received during the consultation.

The proposed amendments include aligning the control structure of REITs with that of listed companies and introducing a set of REIT Guidance Notes.

Accordingly, with effect from 25 June 2010, unit-holders who increase their holding to 30% or more are subject to the trigger provisions under the Codes. Likewise, unit-holders holding between 30% and 50% who increase their holding by more than 2% from the relevant lowest percentage in the 12-month period preceding the relevant increase in holding are also subject to the creper provisions of the Codes. There is no transitional arrangement.

Also, in view of the support received, the SFC will discuss with the government the proposed legislative amendments to clarify and enhance the regulation of market conduct regarding dealings in listed CIS by applying Parts XIII to XV of the Securities and Futures Ordinance to them.

- (ii) Post-vetting requirement of certain takeovers-related matters

With effect from 25 June 2010, the SFC no longer requires certain routine takeovers-related announcements to be submitted for comment prior to publication. The changes came following a public consultation to relax the current pre-vetting requirement of certain routine announcements and other miscellaneous amendments to the Codes (see [TechWatch no. 91](#)).

Detailed comments and the SFC's responses are contained in the [consultation conclusions](#).

Professional Accountants in Business

17. Best Corporate Governance Disclosure Awards Celebrates its Tenth Anniversary

This year the prestigious Best Corporate Governance Disclosure Awards ("BCGDA") is celebrating its tenth anniversary. A media briefing to launch the 2010 awards was held on 7 July 2010.

The BCGDA sets benchmarks for the best and the most improved corporate governance disclosures and practices amongst Hong Kong listed companies and public sector organizations. There are five categories, including Hang Seng Index (HSI), non-HSI (separate categories for large companies and mid-to-small companies by market capitalization), H-share and public sector/not-for-profit organizations.

Take this opportunity to show support for good corporate governance in Hong Kong by encouraging your organization and your peers to promote, and participate in, the BCGDA 2010. The submission deadline is 17 August 2010.

Click [here](#) for more details of the awards.

Taxation

18. New and Revised Practice Notes

- (i) Departmental Interpretation and Practice Notes ("DIPN") No. 47

DIPN 47 explains the safeguards under tax treaties, the domestic safeguards under the new Inland Revenue (Disclosure of Information) Rules, and the guidelines on the implementation of information exchange.

- (ii) DIPN 27

DIPN 27 has been revised for minor textual changes and changes in the definition of "specified securities" and "specified purpose" in paragraphs 15 and 18 respectively.

19. Inland Revenue Department News

Recent updates on double tax agreements, reminders of certain filing requirement and deadlines, and other tax matters are available on [IRD's website](#).

Legislation & Other Initiatives

20. Combating Money Laundering/ Terrorism Financing

Members may wish to note that the following updated lists and statements have been published:

- **Financial action task force (FATF) public statement:** Draws attention of its members (Hong Kong has been a member since 1990) on the risks of transactions involving Iran, Democratic People's Republic of Korea, São Tomé and Príncipe.
- **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.

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

21. 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.

22. Other Publications

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

- (i) Hong Kong Exchanges and Clearing Limited has published:
- **listing decisions** in June 2010 (see LD93-1 to LD93-6 and LD94-1)
 - revised **FAQ Series** on 2 July 2010 (see Series 1, 5, 7 and 8)
- (ii) The article posted under the SFC Dr. Wise's column, "**Know how new rules protect you when buying investment products**", explains the two new measures to protect investor interests, "Product key fact statements" and "Cooling-off period".
- (iii) Articles on corporate governance by Deloitte
- **Audit committee brief – Audit committee composition**
 - **Navigating the board's role in establishing corporate culture**
 - **Asia Pacific economic outlook: China, Japan, India, Philippines**
- (iv) **Business reporting recommendations from key business leaders** by IFAC