



# 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@hkipa.org.hk](mailto:commentletters@hkipa.org.hk) >. Click [here](#) for past issues.

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## Spotlight

### 1. New Technical Update Evening (TUE) Programme – May to August 2008

The new **TUE programme** (May to August 2008) features a number of important financial reporting and auditing topics, which include:

- FAQs on HKFRSs, HKSAs and HKICPA Code of Ethics
- Issues in Implementing HKFRSs
- Modified Audit Opinions
- Discussion Paper – Reducing Complexity in Reporting Financial Instruments
- Points to Note for Auditors
- HKFRS 3 (Revised) *Business Combinations*
- HK(IFRIC)-Int 13 *Customer Loyalty Programmes*
- HKAS 1 (Revised) *Presentation of Financial Statements*
- HKAS 27 (Revised) *Consolidated and Separate Financial Statements*
- Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- PN 820 (Revised) – *The Audit of Licensed Corporations and Associated Entities of Intermediaries*

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

## Financial Reporting

### 2. Invitation to Comment on IASB Discussion Paper *Financial Instruments with Characteristics of Equity*

The Institute has issued an [Invitation to Comment](#) on IASB Discussion Paper on *Financial Instruments with Characteristics of*

*Equity*, with comments requested by **4 August 2008**. The Discussion Paper is the first stage of the IASB's project to improve and simplify the requirements in IAS 32 *Financial Instruments: Presentation*.

Stakeholders around the world have raised two broad classes of criticisms of the current requirements in IAS 32:

- the principles in IAS 32 are difficult to apply, and
- the application of those principles can result in inappropriate classification of some financial instruments.

The project is a modified joint project between the IASB and the US Financial Accounting Standards Board ("FASB"). The FASB published its Preliminary Views document on *Financial Instruments with Characteristics of Equity* in November 2007. The FASB document describes three approaches to distinguish equity instruments and non-equity instruments, namely, (i) basic ownership, (ii) ownership-settlement, and (iii) reassessed expected outcomes.

A summary of the three approaches and their possible implications are set out in the Appendix to the Invitation to Comment.

The goal of the Discussion Paper is to solicit views of interested parties on whether the proposals in the FASB document are a suitable starting point for the IASB's deliberations.

### 3. The Effect of Adopting HKFRSs on Hang Seng Index Constituent Stocks

As an international financial centre, Hong Kong was among the first jurisdictions to have fully converged with IFRSs. The Institute decided to assess the results of adoption on listed companies. The Institute's Professional Accountants in Business Committee appointed consultants from the School of Accounting & Finance of The Hong Kong Polytechnic University to conduct the necessary research.

The [resulting report](#) identifies the changes in operating performance and financial position

resulting from the adoption of HKFRSs and also identifies the standards that contributed the most to those changes.

#### 4. FRSC Meeting Summary – 5 February 2008

This [FRSC meeting summary](#) covers:

- Proposed dates of FRSC meetings in 2008.
- Revised proposed work plan of the FRSC for 2008.
- IASB ED of proposed amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*.
- IASB ED of proposed amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2 Group and Treasury Share Transactions – Group Cash-settled Share-based Payment Transactions*.
- Project on full compliance with IFRSs.
- Proposed revised HKFRS 3 *Business Combinations* and HKAS 27 *Consolidated and Separate Financial Statements*.
- Proposed amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*.
- Private Company Reporting Framework.
- Adoption of the Glossary of Terms.

### Audit & Assurance

#### 5. New SFC Audit Questionnaire for Licensed Corporations

For the purpose of assisting the Securities and Futures Commission (“SFC”) to carry out its functions of supervising licensed corporations, the SFC requests auditors of a licensed corporation to submit an audit questionnaire to the SFC within 4 months after the end of the financial year of the licensed corporation.

The SFC has issued a [new audit questionnaire](#) for auditors to use in respect of licensed corporations whose financial year ends on or after 31 March 2008.

#### 6. Institute Comments on IAASB Exposure Drafts

The Institute’s submissions to the IAASB on the following exposure drafts (“EDs”) indicate that it is supportive of the redrafting and that generally, the objectives to be achieved by the auditor, as stated in proposed redrafted ISAs, are appropriate. Other comments on the respective EDs are:

##### [ISA 501 \(Redrafted\) The Audit Evidence Regarding Specific Financial Account Balances and Disclosures](#)

The Institute is supportive of the proposal that the requirement and guidance on auditing the valuation and disclosure of long-term investments be removed, as the term “long-term investment” is no longer prevalent under International and Hong Kong Financial Reporting Standards.

Issues would arise principally only where estimation uncertainty is involved, and this is covered in ISA 540 (Revised and Redrafted) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosure* with the relevant requirements and guidance in relation to estimation uncertainty.

##### [ISA 520 \(Redrafted\) Analytical Procedures](#)

The Institute is supportive of the proposal that ISA 520 deals only with substantive procedures in response to assessed risks and procedures that assist in forming the auditor’s overall conclusion on the financial statements, as ISA 315 (Redrafted) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* contains the requirement to use analytical procedures as risk assessment procedures and includes relevant guidance. Hence, any relevant material in extant ISA 520 dealing with analytical risk assessment procedures are relocated to ISA 315.

### **ISA 210 (Redrafted) Agreeing the Terms of Audit Engagements**

The proposed ISA has been redrafted applying the clarity drafting conventions as well as conforming changes as a result of the finalisation of ISA 580 (Revised and Redrafted) *Written Representations*. The Institute supports the proposals that ISA 210 be revised to:

- require the auditor to obtain management's agreement to its responsibilities as a precondition to accepting the audit engagement.
- provide for the auditor to use the wording of the law or regulation to describe those responsibilities that the auditor has determined are equivalent in effect to those set out in the proposed ISA. For management's responsibilities that are not equivalent in effect, or that are not prescribed by law or regulation, the auditor is required to use the description in the proposed ISA.

The Institute has provided additional comments requesting further clarification on the application of the clarity drafting conventions.

### **ISA 710 (Redrafted) Comparative Information – Corresponding Figures and Comparative Financial Statements**

The proposed ISA has been restructured to indicate that the auditor's procedures are the same in respect of corresponding figures and comparative financial statements. It has been structured to set out separately the auditor's reporting responsibilities for the two approaches to presenting comparative information.

A new requirement for comparative financial statements is that auditor should obtain written representations from management in respect of each period for which the comparative financial statements are presented. For corresponding figures, written representations are required for the financial statements of the current period only, which include the comparative information for the previous period.

The Institute has no comments on comparative financial statements, as Hong Kong incorporated companies are not required to prepare them. However, the Institute has requested for the elevation of some guidance in the extant ISA 710 as a useful reminder to auditor to encourage management to disclose clearly in the financial statements where the corresponding figures/ comparative financial statements are unaudited.

## **7. AASC Meeting Summary – 25 March 2008**

This [AASC meeting summary](#) covers:

- Draft submissions to the IAASB EDs on ISAs 501, 520, 210 and 710.
- Progress report on referral from the Law Society of Hong Kong on proposed amendments to the Accountant's Report Rules.
- Amendments to HKSREs 2400 and 2410.

## **Corporate Finance**

### **8. SFC/HKEx Joint Consultation on Issue of Paper Application Forms with Electronic Prospectuses**

The SFC and the Hong Kong Exchanges and Clearing Limited ("HKEx") published a joint [consultation paper](#) on 1 April 2008. The paper seeks views on a proposal to allow paper application forms for public offers to be handed out at receiving banks, without also having to hand out printed prospectuses, if electronic prospectuses are available online on certain prescribed websites and other requirements aimed at investor protection are satisfied. Under the proposal, investors may still obtain paper prospectuses at specified branches of receiving banks.

Comments on the consultation are invited by 30 May 2008. The document is being considered by the Corporate Finance Committee at the Institute. Members will be kept informed of developments through future issues of TechWatch.

## 9. Institute Objects to HKEx's Proposal to Remove the Requirement for a Qualified Accountant under the Listing Rules

As reported in [TechWatch No. 64](#), HKEx released a [consultation paper](#) on 11 January 2008 to seek the market's views on eighteen substantive policy issues, including the contentious issue of whether to remove from both the main board and the Growth Enterprise Market Listing Rules the requirement for a listed issuer to employ a "qualified accountant" as a member of senior management (i.e., Issue 3 in the paper).

In its submission to HKEx, the Institute explains in some detail why, in the current circumstances, the requirement is still justified and why membership of the Institute remains a suitable qualification. The submission argues that removing the requirement for a qualified accountant would be a retrograde step that would send a negative signal to the market and the public about the importance of reliable financial reporting and good corporate governance, and the professional expertise required to support these. The Institute's [submission](#) contains further details of the Institute's position on this proposal and comments on a number of the other issues discussed in the consultation paper.

Click [here](#) to read the submissions from other respondents on the consultation paper, which have been posted on the HKEx's website.

### Insolvency & Corporate Restructuring

## 10. Institute Launches Restructuring and Insolvency Faculty

The Institute formally launched its new [Restructuring and Insolvency Faculty](#) ("RIF"), the first specialist faculty set up under the Institute, at a cocktail reception held on 28 April 2008. The Hon Mr. Justice Rogers, V-P, Justice of Appeal was the guest of honour. Around 130 RIF members and other prominent guests from the government, judiciary and the insolvency sector attended the launch.

Faculties represent an important new initiative by the Institute. The aim of establishing faculties

is to develop centres of excellence in specific fields of professional expertise and to enhance support for faculty members working in that sector. The work of the RIF will include running regular professional development seminars, as well as other events and activities, making representations and liaising with the government and regulators on matters affecting the insolvency sector, issuing best practice guidance and other technical publications.

[Membership](#) of the RIF is open to Institute members, members of other relevant professional bodies, experienced practitioners and other persons with an interest in the field of insolvency, business recovery and restructuring.

## 11. ORO Issues Guidance for Reporting of Bankruptcy Offences

The Official Receiver's Office ("ORO") has recently issued [circular no. 1/2008](#) on "Reporting Bankruptcy Offences".

The circular sets out the background to and guidelines for the reporting of bankruptcy offences to the OR in respect of cases where the bankruptcy petition was presented, on or after 10 December 2007, pursuant to section 86A(2)(a) of the Bankruptcy Ordinance (Cap.6).

### Legislation & Other Initiatives

## 12. Healthcare Reform Forum

As reported in [TechWatch No. 66](#), the government published a [consultation](#) document on healthcare reform in March 2008. To help members to understand this complex issue more fully, especially the options for supplementary financing, a [members' forum](#) on healthcare reform was held on 25 April 2008, which was attended by around 200 members.

At the forum, a very distinguished panel of speakers shared their views on healthcare reform in Hong Kong.

Health minister, Dr. York Chow, explained the government's view on the need for, and proposed scope of, healthcare reform in Hong Kong.

Other members of the panel comprised (in the order in which they spoke) private medical practitioner, Dr. Louis Shih (also chairman, SynergyNet and member, Health and Medical Development Advisory Committee), Prof. Stephen Cheung (professor (chair) of finance, City University of Hong Kong), Mr. Michael Somerville (chairman of the Business and Professional Federation's Health Care Committee) and Mr. Anthony Wu (chairman, Hospital Authority and a professional accountant).

The consultation lasts until 13 June 2008. Copies of the printed version of the consultation document (both English and Chinese) are available for collection by members, on a first-come-first-served basis, at the Institute's reception on the 27th Floor of Wu Chung House, Wanchai.

Members who wish to express their views on the consultation document, in particular, the supplementary financing options, can direct their views to: [commentletters@hkipa.org.hk](mailto:commentletters@hkipa.org.hk).

### 13. Second Public Consultation on Companies Ordinance Rewrite

The government issued a [consultation paper](#) on 2 April 2008 covering measures to improve provisions in the Companies Ordinance (Cap. 32) dealing with company names, directors' duties, corporate directorship and registration of charges. This is the second in a series of public consultations on the Companies Ordinance rewrite project.

The consultation period will last for three months, ending on 30 June 2008. The proposals will be reviewed by relevant committees in the Institute. Members will be kept informed of developments through future issues of TechWatch.

### 14. Anti-money Laundering/Combating Terrorism Financing Notices

Members may wish to note that the following updated lists have been published in the government gazette or other publications:

- **Government notice 1757:** Terrorists and terrorist associates specified under the

United Nations (Anti-Terrorism Measures) Ordinance.

- **Government notice 1759:** "Relevant persons and entities" specified under the United Nations Sanctions (Liberia) Regulation 2008 ("Liberia Regulation"). The Liberia Regulation was made under the United Nations Sanctions Ordinance (Cap. 537) and published as [legal notice 57](#) in the gazette.
- **US Executive Order 13224:** Adds names of individuals and entities 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".

### International Meetings

### 15. International Accounting Standards Board

The IASB met in London on 15 – 18 April 2008, discussed the following topics:

- Annual improvements
- IFRS for small and medium-sized entities
- IAS 39 *Financial Instruments: Recognition and Measurement*
- Revenue recognition
- Liabilities – amendments to IAS 37
- Cost of an investment in a subsidiary, jointly controlled entity or associate
- IFRS 5 amendments
- Consolidation
- Fair value measurement
- Joint ventures

Click [here](#) to view the April 2008 IASB Update. The IASB next meets on 19 – 23 May 2008.

## 16. International Financial Reporting Interpretations Committee

The IFRIC will meet in London on 8 – 9 May 2008. Click [here](#) for the meeting papers. Further details about the meeting will be reported in the next issue of TechWatch.

## 17. International Auditing and Assurance Standards Board

The IAASB will meet in Athens, Greece, from 16 – 20 June 2008. Click [here](#) for:

- registration for the June meeting; and
- background papers, audio recording and meeting summary of the March 2008 meeting in New York.

## 18. International Ethics Standards Board for Accountants

The IESBA will meet in Brussels, Belgium from 24 – 25 June 2008. There will be a conference call at 8:00 am New York time on 16 May 2008. Click [here](#) for:

- registration for the June meeting;
- registration for the May conference call and agenda papers; and
- background papers and meeting summary of the April 2008 meeting in New York.

### For Information

## 19. IFAC Report Examines Improvements to Financial Reporting Supply Chain

The result of a recent global survey commissioned by the International Federation of Accountants (“IFAC”), *Financial Reporting Supply Chain: Current Perspectives and Directions*, shows that significant efforts to strengthen financial reporting in recent years have resulted in improvements in the financial reporting process, corporate governance and auditing. Despite these improvements, financial reports could still be more useful and understandable.

The survey result also indicates that XBRL (eXtensible Business Reporting Language) is a welcome tool for interpreting financial reporting information, although more efforts are needed to promote how it works.

## 20. New Publications

New books available at the Institute’s library:

- Wiley GAAP 2008: Interpretation and Application of Generally Accepted Accounting Principles. Barry J. Epstein, Ralph Nach, Steven M. Bragg. Publisher, Hoboken, N.J.: John Wiley & Sons, Inc.
- Valuation for Financial Reporting: Fair Value Measurements and Reporting, Intangible Assets, Goodwill and Impairment. Michael J. Mard, James R. Hitchner, Steven D. Hyden. Publisher, Hoboken, N.J.: John Wiley & Sons, Inc.
- Acquisition Essentials: A Step-by-Step Guide to Smarter Deals. Denzil Rankine, Peter Howson. Publisher, England: Financial Times/Prentice Hall.
- 銀行業條例 (第 155 章) Banking Ordinance (Chapter 155). Publisher, 香港: 政府物流服務署.
- 破產條例 (第 6 章) Bankruptcy Ordinance (Chapter 6). Publisher, 香港: 政府物流服務署.
- 匯票條例 (第 19 章) Bills of Exchange Ordinance (Chapter 19). Publisher, 香港: 政府物流服務署.
- 證券及期貨條例 (第 571 章) Securities and Futures Ordinance (Chapter 571). Publisher, 香港: 政府物流服務署.
- Contract Law in Hong Kong. Michael J. Fisher, Desmond G. Greenwood. Publisher, HK: Hong Kong University Press.
- Law of Contract in Hong Kong: Cases and Commentary. Stephen Hall. Publisher, HK: LexisNexis, 2007.



- Hong Kong Company Law Handbook: Companies Ordinance (Chapter 32) 公司條例 (第 32 章). Annotators, Roman Tomasic, ELG Tyler; contributors, Vanessa Stott ... [et al.]; publishing manager, Sharon Kaur; legal editor, Calvinne Luis, Sharron Fast. Publisher, HK: LexisNexis.
- Hong Kong Employment Law: A Practical Guide. Pattie Walsh. Publisher, HK: CCH Hong Kong Ltd.
- Butterworths Hong Kong Employment Handbook. Annotator, Michael Downey, Vickie Ling; publishing manager, Sharon Kaur; legal editor, Calvinne Luis. Publisher, HK: LexisNexis, c2007.
- Hong Kong Employees' Compensation Handbook: Employees' Compensation Ordinance (Chapter 282) 僱員補償條例 (第 282 章). Annotator, Danny CW Tam; publishing manager, Sharon Kaur; legal editor, Calvinne Luis. Publisher, HK: LexisNexis.
- Bermuda, British Virgin Islands and Cayman Islands Company Law. Christopher Bickley. Publisher, HK: Sweet & Maxwell Asia.
- A Practitioner's Guide to Trusts: Hong Kong edition. UK chapters by John Thuston; HK chapters by Deborah Annells. Publisher, HK: CCH Hong Kong Ltd.
- Business Planning Guide: Practical Application for SMEs. IFAC Professional Accountants in Business Committee (PAIBC). Publisher, New York: PAIBC.
- Practical Guides – Business Organisations in Hong Kong. Miller & Sloane. Publisher, HK: Institute of Professional Development Limited.
- Practical Guides – Company Regulation in Hong Kong. Tashjian, Miller & Sloane. Publisher, HK: Institute of Professional Development Limited.
- Corporate Practice Management Manual 2007. Independent Financial Advisors Association Limited. Publisher, HK: PPP Co. Limited.
- The Ernst & Young Business Plan Guide. Brian R. Ford, Jay M. Bornstein, Patrick T. Pruitt. Publisher, Hoboken, N.J.: John Wiley & Sons, Inc.
- 勝在營銷: 中小企、創業者、準備成功的生意人必讀 10 課. 冼日明, 嚴啓明編著. Publisher, 香港: 香港市務學會; 香港中文大學市場學(理學)碩士課程; 美商 麥格羅·希爾國際股份有限公司.
- Indonesia: An Alternative Production Base and Emerging Market for Hong Kong Companies. Research Dept., Hong Kong Trade Development Council ("HKTDC"). Publisher, HK: Research Dept., HKTDC.
- Brazil: A Rising Star in Latin America. Research Dept., HKTDC. Publisher, HK: Research Dept., HKTDC.

### Comment Due Dates

**15 May 2008:** [IAASB Exposure Draft](#) of proposed ISAE 3402 *Assurance Reports on Controls at a Third Party Service Organization*

**4 August 2008:** [IASB Discussion Paper](#) on *Financial Instruments with Characteristics of Equity*

Please send comments to  
< [commentletters@hkipa.org.hk](mailto:commentletters@hkipa.org.hk) >