



STANDARDS & TECHNICAL

NEWS AT A GLANCE

TechWatch is a publication designed to alert members to topics and issues that impact on CPAs and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Ms. Patricia McBride, Director, Standard Setting by [email](#).

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TechWatch is prepared by the Hong Kong Institute of CPAs and is intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Institute endeavours to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted by the Institute.

The Editorial Team Members of TechWatch are:

*Patricia McBride, Elaine Chan, Elsa Ho and Steve Ong, Standard Setting Department
Peter Tisman, Mary Lam and John Tang, Specialist Practices Department
Gary Wong and Grace Leung, Member Services Department*

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CPD & Events

1. Professional Development Activities June To July 2006

The Institute is committed to provide an all rounded CPD programme to suit the varying needs of members. Highlights for the months of June to July are:

Technical Update Evening (TUE) – June to July 2006 Programme

The **new TUE programme** covering the period from June to July 2006 features a number of important auditing and financial reporting topics:

- 614 (6 June) New Standards on Pro Forma Financial Information
- 617 (13 June) Improving Audit Documentation (re-run)
- 615 (27 June) Discussion Paper on “Requests for Special Purpose Reports”
- 616 (11 July) Commonly asked financial reporting questions

To secure your seats, please register early by completing the **registration form** and returning it to the Institute.

IFRS Training

- **Fair Valuation of Land and Building in Accordance with New HKFRS / HKAS** (6 Jul)
- **HKFRS 3 and HKAS 27, 28 and 31 (re-run)** (7 Jul)
- **HKAS 19 and HKFRS 2** (8 Jul)
- **最新香港會計準則與內地會計準則的差異** (17 Jul)
- **HKAS 16, 17 and 40 and Interpretations 1, 2 and 4 (Re-run)** (19 Jul)

Corporate Governance

- **Corporate Governance for Public Bodies and Not-For-Profit Organisations – The Good and The Bad** (8 June)
- **SOX 404 Compliance – Sharing the U.S. Experience** (28 Jul)

Legal

- **The Regulatory Regime for Offering of Investments under the Securities and Futures Ordinance and the Companies Ordinance** (22 June)
- **Company Law of PRC – Legal Issues** (10 Jul)

PRC

- **Mergers and Acquisition in China – 2005** (5 June)
- **Latest Updates on Mainland China Transfer Pricing** (11 Jul)

Taxation

- **International Corporate Structuring – An Overview of the Basics** (26 June)
- **Annual Taxation Update 2006** (15 Jul)

Others

- **Investment Psychology for Accounting Professionals** (9 June)
- **First Step to Risk Management Process: Risk Assessment – A Suggested Approach** (19 June)
- **MPF – Five Years in Review** (18 Jul)
- **Financial Planning – Value Added Service for CPAs** (25 Jul)

Soft Skills & Language

- **Presentation by Building a Storyline** (3 June)
- **Consultative Selling** (5 Jul)
- **Crisis Management and Leadership for Accountants** (8 Jul)
- **From Good to Great Leaders** (22 Jul)

View the full programme [here](#) and enroll before they are full.

Financial Reporting

2. Institute Invites Comment On IASC Foundation’s Consultation Document

The Institute has issued an **Invitation to Comment** on IASC Foundation’s Consultation Document – Due Process of The International Financial Reporting Interpretations Committee (IFRIC) Draft Handbook, with comments requested by **11 September 2006**. The draft IFRIC Due Process Handbook sets out the IFRIC’s due process for dealing with the requests for interpretations. This document gives an opportunity to provide comment to the IASC Foundation about the IFRIC’s due process and to recommend improvements.

When the Trustees of the IASC Foundation initiated a review of the organisation’s constitution in November 2003, they identified the resources and effectiveness of the IFRIC as one of the major issues to review.

3. Institute Comments On IASB Consultation Documents

- (a) IASB Discussion Paper on Measurement Bases for Financial Accounting – Measurement on Initial Recognition

The IASB discussion paper analyses possible bases for measuring assets and liabilities on initial recognition. These measurement bases include historical cost, current cost, fair value, net realisable value and value in use. It also considers deprival value, which combines several measurement bases in a single model. The paper evaluates the possible bases against criteria derived from the IASB *Framework for the Preparation and Presentation of Financial Statements*, as well as developments in finance theory, the application of present value and statistical probability principles and measurement practices. This paper is a first step in revising the measurement aspects of the Framework, and is likely to affect many financial reporting standards in future.

The Institute’s **submission** to the IASB expressed a view that substantial further work on the conceptual framework would be needed before the IASB decides to take this detailed discussion paper forward.

(b) IASB Exposure Draft ED 8 *Operating Segments*

The IASB exposure draft proposes to require an entity to adopt the ‘management approach’ to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet. The proposals therefore require explanations of the factors used to identify operating segments and the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and the balance sheet.

The Institute’s **submission** to the IASB, in general, objects to the proposals to adopt the management approach to segment reporting, in particular, the proposed approach might lead to disclosure of segment amounts that are not measured in accordance with the accounting policies used in preparing the entity’s financial statements. The Institute considers the approach used in the existing IAS 14 is better than the proposals under the exposure draft and therefore sees no compelling reason to change the existing IAS 14.

4. **Institute Comments On Draft Accounting Manual For Television Programme Services Licensees**

The Broadcasting Authority (BA) issued Draft Accounting Manual for Television Programme Services Licensees for industry consultation. The Draft Accounting Manual is designed to assist the BA in the development of an accounting separation manual for the television programme service licensees. It proposes to provide a framework for accounting separation and set out the principle and methodology used in preparing separate accounts for the television programme service and telecommunications businesses within vertically-integrated companies.

The Institute’s **submission** to the BA, in general, recommends that the section on “general accounting policies and principles” should have cross-references to Hong Kong Financial Reporting Standards in general but specifying only the differences required for each individual item, if needed.

5. **FRSC Meeting Summary – 12 April 2006**

This **FRSC meeting summary** covers:

- HK(IFRIC) Interpretation 8 *Scope of HKFRS 2*
- IASB Discussion Paper on Management Commentary
- IASB Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters
- Withdrawals of SSAPs, SSAP-Interpretations and Accounting Guidelines
- Revision of Hong Kong Interpretations following the Implementation of HKASs
- The Proposal of Education Manpower Bureau to reduce the complexity of school accounts
- Industry Consultation on Draft Accounting Manual for Television Programme Service Licensees
- Financial Reporting Standards Forum to be held on 3 June 2006
- Accounting for a share-based payment by the parent

Audit & Assurance

6. Institute Comments On IAASB ED Of Proposed ISA 550 (Revised) On Related Parties

The Institute's **submission** to the IAASB on the ED of proposed ISA 550 (Revised) on Related Parties considers that the revision of the ISA is timely given the involvement of related parties, such as directors, owners, and management, in many of the recent major corporate scandals.

The Institute's submission generally supports the proposals and highlights two main issues:

- It draws attention to the fact that certain of the proposed requirements in the revised standard will pose practical difficulties for entities incorporated in the People's Republic of China (PRC) given that the majority of entities in the PRC are still controlled, directly and indirectly, by the PRC government through the State Council, Ministries and various other levels of government entities that exist in each province and municipality. Accordingly, the practicability and the inherent limitations of the auditor being able to carry out certain of the new requirements should be carefully considered; and
- Given that it is the management's responsibilities for preparing financial statements, it is important that the proposed standard should place appropriate emphasis on management's processes in identifying related party relationships and transactions and on the need for the auditor to obtain an understanding of such processes. Accordingly, it considers that an appropriate balance should be struck between the extent of the auditor's responsibilities and those of management, particularly when addressing situations where management has failed to appropriately identify related party relationships and transactions.

7. AASC Meeting Summary – 27 March 2006

This **AASC meeting summary** covers:

- Revised Terms of Reference
- AASC/IAASB Meeting on 10 March 2006 and ISA 800 *The Auditor's Report in Special Purpose Audit Engagements*
- Submission on IAASB exposure draft of Improving the Clarity of IAASB Standards
- Proposed exposure draft of Discussion Paper *Requests for Special Purpose Reports*
- Audit Reports – Reference to Hong Kong Standards on Auditing
- Consultation on Draft Accounting Manual for Television Programme Service Licensees
- Accountants' Report Project – Progress Report

Ethics

8. Ethics Committee Meeting Summaries – 9 March 2006 And 20 April 2006

The **Ethics Committee meeting summary (9 March 2006)** covers:

- Revised Terms of Reference
- Work Plan for 2006
- Ethics Standards Board for Accountants Meeting – 20 - 22 February 2006

The [Ethics Committee meeting summary \(20 April 2006\)](#) covers:

- Due Process for Ethics Standard-setting
- Proposed revisions to Section 450 “Practice Promotion”
- Proposed revisions to Section 430 “Integrity, Objectivity and Independence in Insolvency”

Taxation

9. Budget Legislation Passed By Legislative Council

The Revenue Bill 2006, which implements certain tax concessions announced in the 2006-07 Budget (see [TechWatch No. 42](#)) was passed by the Legislative Council on 24 May 2006. The Bill reduces the marginal rates applicable to salaries tax and extends the period for which home loan mortgage interest relief may be claimed (see [TechWatch No. 43](#)).

Legislation & Government Initiatives

10. Copyright (Amendment) Bill 2006 Introduced Into Legislative Council

The [Copyright \(Amendment\) Bill 2006](#) was introduced into the Legislative Council on 29 March 2006 and a Bills Committee has been formed to consider the Bill.

The Bill covers a number of areas including business end-user criminal liability; directors'/partners' criminal liability; defence for employees and exemptions for certain professionals in respect of business end-user criminal liability; civil remedies for circumvention of technological measures; criminal liability relating to circumvention activities; exceptions to the civil and criminal provisions; fair dealing for education and public administration and improvements to the permitted acts for education; new permitted act for persons with a print disability; new permitted act for playing sound broadcast in vehicles, and liberalisation in relation to the use of parallel imports.

The Institute has previously made submissions on related issues (see [TechWatch Nos. 2, 14, 16 and 31](#)), including the following:

- (1) [Submission on Review of Certain Provisions of Copyright Ordinance](#) dated 26 February 2005;
- (2) [Submission on Copyright \(Amendment\) Bill 2003](#) dated 28 June 2003;
- (3) [Submission on Copyright \(Amendment\) Bill 2001](#) dated 16 August 2002; and
- (4) [Submission on Review of Certain Provisions of Copyright Ordinance](#) dated 31 December 2001.

The Institute's Expert Panel on Legal Matters is considering the Copyright (Amendment) Bill 2006 and members will be kept informed of any significant developments on the matter.

11. Institute Comments On Review Of Public Service Broadcasting

The Committee on Review of Public Service Broadcasting (“the Committee”), which is responsible for reviewing comprehensively the future development of public service broadcasting in Hong Kong, has requested comments from the Institute and other professional bodies to help

ensure that the recommendations to be made by the Committee reflect public needs and expectations.

As part of its role in promoting good corporate governance in the public sector, as well as the private sector, and as a responsible corporate citizen, the Institute issued a **submission** to the Committee, responding to specific questions raised in the letter from the Committee. The submission included the following general principles:

- The purposes and values, or the public service mandate, of the public service broadcaster (“PSB”) in Hong Kong should include the universality of services, diversity of programming, provision for minority audiences, and cultural and educational enlightenment.
- The guiding principles for public service broadcasting programming in Hong Kong should include editorial impartiality and integrity, high standards of programming, good governance, ethical practices and safeguarding of the public interest.
- A PSB should, as far as possible, be free from, and insulated from, both political and commercial influences and, to this end, should not seek or receive endorsements or sponsorships from commercial or political organisations. A study should be undertaken into how similar public service broadcasters are funded in other jurisdictions.
- The financial performance of the PSB should be measured according to agreed benchmarks. To enhance transparency and accountability, the PSB should adopt clear and consistent accounting policies and standards and be subject to proper auditing. The PSB should publish a report containing inter alia its financial statements at least annually.
- The operation of a PSB in Hong Kong should be monitored by an independent oversight board, which would be responsible for monitoring policy matters, such as programming policy and funding requirements, as well as for evaluating the performance of the management. The oversight board should ensure that the PSB fulfils its public service mandate and is accountable for its financial and non-financial performance.
- The Institute referred the Committee to its guide entitled *Corporate Governance for Public Bodies: A Basic Framework*, published in May 2004

International Meetings

12. International Accounting Standards Board

The IASB met in London on 23 – 26 May 2006 and discussed the following topics:

- Business Combinations II
- Insurance
- Accounting standards for small and medium-sized entities
- Fair value measurement
- Service concession arrangements
- IAS 37 redeliberations
- Employee benefits (pensions)
- IFRIC Update

- IAS 24 *Related Party Disclosures*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Click [here](#) to see the May 2006 IASB Update of the Board Decisions on IFRS. The IASB next meets on 19 – 23 June 2006.

13. **International Financial Reporting Interpretations Committee**

The IFRIC met in London on 11 and 12 May 2006 and discussed the following topics:

- IAS 18 *Revenue* – Customer Loyalty Programmes
- IAS 19 *Employee Benefits* – The Effect of a Minimum Funding Requirement on the Asset Ceiling
- Service Concession Arrangements
- IAS 39 *Financial Instruments: Recognition and Measurement* – Derecognition of Groups of Financial Assets
- D17 *IFRS 2 Group and Treasury Share Transactions*
- D18 *Interim Reporting and Impairment*
- IFRS 2 *Share-based Payment* – Employee Benefit Trusts
- IAS 18 *Revenue* – Upfront Revenue Recognition
- IAS 32 *Financial Instruments: Presentation* – Classification of a Financial Instrument as Liability or Equity
- IFRS 3 *Business Combinations* – Classification of puts and forwards held by minority interests
- IFRS 2 *Share-based Payment* – Post-vesting Transfer Restrictions
- IFRIC Agenda Decisions
- Tentative Agenda Decisions

Click [here](#) to see the May 2006 IFRIC Update. The IFRIC next meets on 6 and 7 July 2006.

14. **International Auditing And Assurance Standards Board**

The meeting summary for the March 2006 IAASB meeting held in Hong Kong has now been posted on the IAASB website. Click [here](#) for further details. The IAASB next meets on 10 – 14 July 2006.

15. **International Ethics Standards Board For Accountants**

The IESBA next meets on 13 and 14 June 2006 in Prague. Topics to be discussed are:

- Network Firms
- Independence

Click [here](#) to see the agenda papers.

For Your Information

16. International Federation Of Accountants (IFAC) Leadership Update – May 2006

This **IFAC Leadership Update** highlights significant progress that has been made by the IFAC boards and committees and focuses on some upcoming events and programmes. It covers, amongst others, the following:

- Key issues discussed at a recent meeting of the chief executives of more than 30 member bodies
- IFAC launches a new web-based global knowledge resource for professional accountants in business
- Forum in Hong Kong on 3 July 2006 to focus on the needs of Small and Medium Practices
- Recent International Auditing and Assurance Standards Board initiatives
- New constitution for the Forum of Firms
- Proposed new International Education Standard on competence requirements for audit professionals
- Web-based survey to identify the regulatory frameworks and reporting requirements for micro-entities

17. Public Interest Oversight Board – First Public Report

The **Public Interest Oversight Board** (“PIOB”) was formed by IFAC in early 2005 with the objective of restoring public confidence in the accounting profession. It oversees IFAC's auditing and assurance, ethics, and education standard-setting activities as well as its member body compliance program (a program designed to encourage IFAC member bodies to adopt international standards and to implement quality assurance and investigation and discipline programs). The PIOB has issued its first **public report**, which summarises its activities over the past year.

Comment Due Dates

DATE	SUBJECT
3 July 2006	IASB Exposure Draft of Proposed Amendments to IAS 1 <i>Presentation of Financial Statements</i>
7 July 2006	IAASB Exposure Draft of ISA 600 (Revised and Redrafted) <i>The Audit of Group Financial Statements</i>
11 September 2006	IASC Foundation's Consultation Document – Due Process of The International Financial Reporting Interpretations Committee Draft Handbook.
31 October 2006	HKICPA Exposure Draft of Discussion Paper: <i>Requests for Special Purpose Reports</i>
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