



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 >. Click [here](#) for past issues.

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Spotlight

1. Handbook Update No. 42

Update No. 42 encloses instructions to discard all the Statements of Auditing Standards (“SAS”) except for SAS 510 *Principal auditors and other auditors*.

SAS 510 is retained until replaced by the proposed Hong Kong Standard on Auditing (“HKSA”) 600 *Using the Work of Another Auditor*. The IAASB is currently revising the International Standard on Auditing (“ISA”) 600 *Using the Work of Another Auditor*. The Institute will consider adopting ISA 600 as HKSA 600 once it is revised by the IAASB.

Other SASs and all the Standards on Assurance Engagements have been replaced by HKSA and Hong Kong Standards on Assurance Engagements, respectively. HKSA are generally effective for audits of financial statements for periods beginning on or after 15 December 2004.

Financial Reporting

2. Institute Comments on Proposed Amendments to the IASC Foundation Constitution and the Preface to IFRS – *Enlarging the IFRIC*

The IASC Foundation Consultation Document proposes to increase the size of the International Financial Reporting Interpretations Committee (“IFRIC”) from 12 to 14 voting members and to increase its quorum from 9 to 10 voting members. It also proposes to increase the number of voting members who can vote against a draft or final Interpretation from 3 to 4 voting members in approving a draft or final Interpretation.

The Institute’s **submission** supports the proposals contained in the IASC Foundation Consultation Document.

3. Invitation to Comment on IFRIC Draft Interpretation: D21 *Real Estate Sales*

The Institute has issued an **Invitation to Comment** on the IFRIC Draft Interpretation: D21 *Real Estate Sales*, with comments requested by **11 September 2007**.

The Draft Interpretation aims to standardise accounting practice among real estate developers for sales of units, such as apartments or houses, “off plan”, i.e., before construction is complete.

It proposes that revenue should be recorded as construction progresses only if the developer is providing construction *services*, rather than selling *goods* (completed real estate units). It proposes features which indicate that the seller is providing construction services. In many countries, these features tend currently not to be present in typical off plan sale agreements.

It also proposes ways to recognise an entity’s remaining obligations in respect of situations in which the conditions for recognising revenue from the sale of real estate are satisfied before the entity has performed all of its contractual obligations to the buyer.

The Institute proposes to withdraw Hong Kong Interpretation 3 (HK-Int 3) *Revenue – Pre-completion Contracts for the Sale of Development Properties* upon finalisation of the Draft Interpretation.

HK-Int 3 provides a transitional provision, which allows an entity not to apply HK-Int 3 retrospectively to pre-completion contracts for the sale of development properties entered into before 1 January 2005, i.e., the effective date of HK-Int 3 (or date of initial application of HK-Int 3, if earlier). This transitional provision is not available in the Draft Interpretation, which proposes to require retrospective application. Views on whether a similar transitional provision should be requested from IFRIC are most welcome.

4. Comparison between HKFRSs and IFRSs

The Institute has updated the [comparison table](#) between Hong Kong Financial Reporting Standards (“HKFRSs”) and International Financial reporting Standards (“IFRSs”) up to 1 July 2007.

5. FRSC Meeting Summary – 13 June 2007

This [FRSC meeting summary](#) covers:

- Mainland land appreciation tax
- Proposed HKFRS/IFRS Forum
- Annual Accounting Update 2007
- Project working groups
- Report on a special meeting on IFRS for SMEs
- IFAC Survey on the Financial Reporting Supply Chain
- Draft submission on Consultation Paper on the Rewrite of the Accounting and Auditing Provisions in the Companies Ordinance

Audit & Assurance

6. Institute Comments on Proposed ISA 550 (Revised and Redrafted) *Related Parties*

The Institute’s [submission](#) to the IAASB on the ED of proposed ISA 550 (Revised and Redrafted) *Related Parties* indicates that it is supportive of the redrafting and that, generally, the objective to be achieved by the auditor, as stated in the proposed revised and redrafted ISAs, is appropriate.

Furthermore, the Institute comments that the criteria identified by the IAASB for determining that a requirement has been applied appropriately and consistently will promote consistency and the use of professional judgement by auditors.

The key comment of the Institute was that the definition of related party in the proposed ISA should be aligned with the definition of a related party in the IASB ED of Proposed Amendments to IAS 24 *Related Party Disclosures – State-controlled Entities and the Definition of a Related Party*.

7. AASC Meeting Summary – 26 June 2007

This [AASC meeting summary](#) covers:

- Draft submission on IAASB ED of ISA 550 (Revised and Redrafted) *Related Parties*
- Law Society Project
- Social Welfare Project – Progress Report
- ED of Discussion Paper “Request for Special Purpose Reports”
- Practice Note 820 *The Audit of Licensed Corporations and Associated Entities*
- Proposed Discussion Paper – Assistance to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting

Ethics

8. Invitation to Comment on IESBA EDs on Strategic Plan and Auditor Independence

The Institute has issued an [Invitation to Comment](#) on IESBA exposure drafts which are set out in two parts:

Part A – Proposed Strategic and Operational Plan for 2008-2009, with comments requested by **17 August 2007**.

Part B – Proposed additional requirements on auditor independence, with comments requested by **28 September 2007**.

The Explanatory Memorandum to the EDs provides background information and detailed explanation of the proposals.

In the proposed Strategic and Operation Plan for 2008-2009, the IESBA proposes to complete the three projects that it already has on progress. It will also consider the implications for the IFAC Code of Ethics for Professional Accountants of the new drafting conventions adopted under the Clarity Project by the IAASB.

In addition, the IESBA proposes to commence four new projects in the areas of: fraud and illegal acts, conflicts of interest, independence and implementation support.

In the proposed additional requirements on Auditor Independence, the IESBA proposes to strengthen the following components of the independence requirements contained in the Code:

- Provision of internal audit services to an audit client;
- Independence implications related to the relative size of fees received from one assurance client; and
- Contingent fees for services provide to assurance clients.

Corporate Governance

9. Institute Invites Entries for Best Corporate Governance Disclosure Awards 2007

A **press** conference to launch the 2007 Best Corporate Governance Disclosure Awards ("2007 BCGD Awards") was held on 10 July 2007 and received positive coverage in the media.

The Best Corporate Governance Disclosure Awards ("the Awards"), now entering its eighth year, is regarded as a prestigious event in the corporate governance calendar and is well supported by regulators, the government, investor groups, and the business community. The competition continues to play an important role in establishing benchmarks, encouraging improvements in standards of corporate

governance and raising awareness of the need for transparency and accountability to shareholders and stakeholders, prospective investors, the market generally and, particularly in the case of public sector entities, the wider community.

The focus of the Awards is on voluntary disclosures of relevant information in annual reports that clearly exceed the minimum legal and regulatory requirements. An additional emphasis this year is to recognise annual reports that demonstrate strengths in particular areas of corporate governance that are regarded as important, such as corporate social responsibility and environment and community reporting, reporting on risk assessment and management and internal controls.

The 2007 BCGD Awards is open to listed companies and public sector/not-for-profit organisations in five different categories, namely,

- (i) Hang Sang Index (HSI)-constituent companies
- (ii) Non-HSI Main Board-listed companies
- (iii) GEM-listed companies
- (iv) H-share companies
- (v) Public sector/Not-for-profit organisations

As in previous years, in each category there will be Diamond, Platinum and Gold Awards. Significant Improvement Awards may also be given out to companies and organisations that have demonstrated a clear commitment to improving their corporate governance practices and disclosures.

We hope that members working in companies/ organisations that are eligible to enter the 2007 BCGD Awards, or who are working as auditors of such companies/organisations, will show their support for the aims of the competition by encouraging their employer companies/ organisations or clients, respectively, to participate in the 2007 BCGD Awards. The deadline for entry is **24 August 2007**.

The **2007 BCGD Awards brochure** contains further details, including an entry form.

Insolvency & Corporate Restructuring

10. ORO Invites Submission of Bids for Completing Preliminary Examinations in Bankruptcy Cases

The Official Receiver's Office ("ORO") is once again inviting interested parties to submit quotations **by noon on 24 August 2007** to take up appointments to complete preliminary examinations in bankruptcy cases. The contract period will last for nine months from October 2007 to June 2008.

Further information, including the quotation form, can be obtained from the ORO at 10th Floor, Queensway Government Offices, 66 Queensway, Hong Kong or downloaded from the [ORO's website](#).

International Meetings

11. International Accounting Standards Board

The IASB met in London on 17 – 20 July 2007 and discussed the following topics:

- Post-employment benefits
- Update on IFRIC activities
- Conceptual framework
- Financial instruments puttable at fair value and obligations arising on liquidation
- Annual improvements process
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 37 redeliberations
- IFRS 2 Share-based Payment
- Short-term convergence: joint ventures

- Short-term convergence: income taxes
- Short-term convergence: earnings per share

Click [here](#) to view the July 2007 IASB Update. The IASB next meets on 17 – 21 September 2007.

12. International Financial Reporting Interpretations Committee

The IFRIC met in London on 12 July 2007 and discussed the following topics:

- IAS 18 *Revenue* – Customer contributions
- IAS 27 *Consolidated and Separate Financial Statements* – Demergers and other in-specie distributions
- IAS 39 *Financial Instruments: Recognition and Measurement* – paragraph AG33(d)(iii)
- IAS 39 *Financial Instruments: Recognition and Measurement* – Scope of paragraph 11A
- IFRS 2 *Share-based Payment* – Group cash-settled share-based payment transactions
- IFRIC agenda decisions
- Tentative agenda decisions

Click [here](#) to view the July 2007 IFRIC Update. The IFRIC next meets on 6 – 7 September 2007.

13. International Auditing and Assurance Standards Board

The IAASB will meet in Madrid, Spain from 24 – 28 September 2007. Click [here](#) to register for the September meeting and access the audio recording and background papers of the July 2007 meeting in Warsaw, Poland.

14. International Ethics Standards Board for Accountants

The IESBA met in Berlin, Germany on 25 – 27 June 2007. Click [here](#) for the minutes, meeting summary and background papers of the June 2007 meeting. The IESBA next meets in Toronto, Canada on 24 – 26 October 2007.

For Information

15. Companies Registry Issues Revised Guidelines and Information Leaflets

The [Company Names Guidelines](#) and the following information leaflets have been revised and posted on the Companies Registry's website:

- [Can We Help You?](#)
- [Deregistration of a Defunct Solvent Private Company](#)
- [Obligations of a Licensed Money Lender](#)

Comment Due Dates

17 August 2007: [IESBA Exposure Draft](#) on Strategic and Operational Plan for 2008-2009

31 August 2007: [IAASB Exposure Draft](#) of ISA 200 (Revised and Redrafted) *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*

31 August 2007: [IAASB Exposure Draft](#) of ISA 500 (Redrafted) *Considering the Relevance and Reliability of Audit Evidence*

1 September 2007: [IASB Exposure Draft](#) of Proposed IFRS for Small and Medium-sized Entities.

11 September 2007: [IFRIC Draft Interpretation](#): D21 *Real Estate Sales*

28 September 2007: [IESBA Exposure Draft](#) on additional requirements on Auditor Independence

29 September 2007: [IASB Discussion Paper](#) on *Preliminary Views on Insurance Contracts*

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