



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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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.

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Spotlight

1. Handbook Update No. 43

Update No. 43 encloses two new Hong Kong (IFRIC) Interpretations:

- Hong Kong (IFRIC)-Int 13 *Customer Loyalty Programmes*
- Hong Kong (IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Further details are set out in the “Financial Reporting” section below.

Financial Reporting

2. Institute Issues New Hong Kong (IFRIC) Interpretations (Handbook Update No. 43)

- (i) Hong Kong (IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 *Customer Loyalty Programmes* is effective for annual periods beginning on or after 1 July 2008. Earlier application is permitted. It is converged with, and has the same effective date as, IFRIC Interpretation 13.

The Interpretation addresses accounting by entities that grant loyalty award credits (such as “points” or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services (“awards”) to customers who redeem award credits.

- (ii) Hong Kong (IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* is effective for annual periods beginning on or after 1 January 2008. Earlier application is

permitted. It is converged with, and has the same effective date as, IFRIC Interpretation 14.

The Interpretation provides general guidance on how to assess the limit in HKAS 19 *Employee Benefits* on the amount of the surplus in a defined benefit plan that can be recognised as an asset. It also explains how the pensions asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The Interpretation will standardise practice and ensure that entities recognise an asset in relation to a surplus on a consistent basis.

3. Invitation to Comment on IASB ED of Proposed Amendments to IAS 39

The Institute has issued an **Invitation to Comment** on the International Accounting Standards Board (“IASB”) exposure draft of proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting*, with comments requested by **3 December 2007**.

The ED proposes to limit what can be designated as a hedged item in a hedge accounting relationship. It specifies the risks that qualify for designation as hedged risks when an entity hedges its exposure to a financial instrument. It also proposes to restrict when an entity can designate a portion of the cash flows of a financial instrument as a hedged item.

4. FRSC Meeting Summary – 11 July 2007

This **FRSC meeting summary** covers:

- Draft submission on IASC Foundation Consultation Document of Proposed Amendments to the IASC Foundation Constitution and the Preface to International Financial Reporting Standards – *Enlarging the IFRIC*
- Proposed Hong Kong (IFRIC)-Int 13 *Customer Loyalty Programmes*

- Proposed Hong Kong (IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- Draft IFRIC Interpretation D21 *Real Estate Sales*
- Updated comparison between HKFRSs and IFRSs
- SME Financial Reporting Framework Sub-Committee – Progress Report
- Proposed HKFRS/IFRS Forum – Progress Report

Audit & Assurance

5. Institute Comments on EDs of Proposed ISAs

The Institute's submissions to the International Auditing and Assurance Standards Board ("IAASB") on the following exposure drafts indicate that it is supportive of the revision and redrafting and that generally, the objectives to be achieved by the auditor, as stated in the proposed revised and redrafted ISAs, are appropriate. In both submissions, the Institute suggested certain improvement changes, as follows:

- (i) **ED of proposed ISA 200** (Revised and Redrafted) *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*

It is considered that the example in paragraph A58 should be clearer and more specific. As currently drafted, the message from the example would appear to imply that achieving the objectives of the ISAs dealing with quality control and documentation is less important than achieving the overall objective of the auditor

- (ii) **ED of proposed ISA 500** (Redrafted) *Considering the Relevance and Reliability of Audit Evidence*

In relation to the application and other explanatory material in the proposed ISA 500, it is considered that paragraph A24 should reiterate the original text in the extant ISA 530 that the auditor is not trained or expected to be an expert on authentication of documents obtained in an audit of financial statements.

6. AASC Meeting Summary – 24 July 2007

This **AASC meeting summary** covers:

- Draft submission on IAASB ED of ISA 250 (Redrafted) *The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements*
- Circular on Reporting on General Charitable Fund-raising Activities (Other Than Flag Days)
- Annual Auditing Update Conference 2007
- Discussion Paper on Assistance to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting
- IAASB Strategy Review Forum in Brussels

Ethics

7. Institute Comments on IESBA ED of Strategic and Operational Plan for 2008-2009

The Institute's **submission** to the International Ethics Standards Board for Accountants ("IESBA") on the exposure draft of Strategic and Operational Plan for 2008-2009 indicates that it is supportive of the proposed new projects. The Institute, however, has expressed concerns that one of the major tasks of the IESBA in 2008 is to complete the project on the revisions to the independence requirements contained in the IFAC Code of Ethics for Professional Accountants, as proposed in the exposure draft issued in December 2006 proposing revisions to existing Section 290 *Independence – Audit and Review Engagements* and Section 291 *Independence – Other Assurance Engagements*.

Without taking into account all the comments raised in order to achieve a self-imposed deadline, the Institute is concerned that IESBA is determining the independence requirements relating to "Entities of Significant Public Interest" ("ESPIs") before we fully understand what entities should be classified as ESPIs.

Corporate Finance

8. Consultation on Periodic Financial Reporting

Hong Kong Exchanges and Clearing Limited ("HKEx") has recently released a [consultation paper](#) to seek views regarding:

- Shortening of reporting deadlines for half-yearly results announcements and reports for Main Board issuers from three months to two months.
- Shortening of reporting deadlines for year-end results announcements and reports for Main Board issuers from four months to three months.
- Introduction of quarterly reporting requirements for Main Board issuers. Under the proposals, quarterly reports would have to be published no more than 45 days after the financial period ends and would have to include certain key information. They would not be required to be audited and, unless a shareholder requested otherwise in a specific case, would not be required to be printed and mailed in hard copy to shareholders.
- Alignment of the current Growth Enterprise Market Listing Rules relating to the disclosure and publication requirements for quarterly reporting with the proposed new Main Board quarterly reporting requirements.

The consultation deadline is 5 November 2007. The consultation document is being considered by relevant committees under the Institute. Members will be kept informed of developments in future issues of TechWatch.

Legislation and Other Initiatives

9. Anti-money Laundering Initiatives

As members should be aware, international initiatives to combat money laundering and terrorist financing are increasingly looking towards professionals to play a role. The Narcotics Division of the Hong Kong Government has recently launched a new TV announcement, "[Be the Gatekeepers for Hong Kong](#)" to explain the role of accountants and other professionals in combating money laundering and what they should do to protect themselves against exploitation.

The Institute published a [Legal Bulletin](#) in July 2006 explaining the current legal requirements in Hong Kong relating to suspicious transaction reporting, and the scope of the "Revised 40 Recommendations", issued by the principal international body working in this field, the Financial Action Task Force on Money Laundering, which now covers accountants, lawyers and other professionals when they carry out certain activities for their clients.

Taxation

10. Annual Meeting with the Inland Revenue Department

The minutes of the 2007 Annual Meeting between the Inland Revenue Department and the Institute are available on the Institute's website as [Tax Bulletin 17](#).

Topics discussed at the meeting included:

- Profits tax issues
- Salaries tax issues
- Cross-border tax issues
- Policy and administrative matters
- Investigation and Field Audit: Discrepancies detected by Field Audit

International Meetings

11. International Accounting Standards Board

The IASB met in London on 18 – 21 September 2007 and discussed the following topics:

- Conceptual framework
- Short-term convergence: earnings per share
- Fair value measurements
- Annual improvements process
- Update on IFRIC activities
- Financial instruments puttable at fair value and obligations arising on liquidation
- Technical plan
- Post-employment benefits
- IAS 24 *Related Party Disclosures*
- Accounting standards for small and medium-sized entities
- IFRS 1 amendments

Click [here](#) to view the September 2007 IASB Update. The IASB next meets on 15 – 19 October 2007.

12. International Financial Reporting Interpretations Committee

The IFRIC met in London on 6 – 7 September 2007 and discussed the following topics:

- IAS 18 *Revenue* – Customer contributions
- IAS 27 *Consolidated and Separate Financial Statements* – Non-cash distributions
- IFRS 2 *Share-based Payment* – Group cash-settled share-based payment transactions

- IAS 39 *Financial Instruments: Recognition and Measurement* – Paragraph AG33(d)(iii) and Scope of paragraph 11A
- IFRIC agenda decisions
- Tentative agenda decisions
- IFRIC work in progress

Click [here](#) to view the September 2007 IFRIC Update. The IFRIC next meets on 1 – 2 November 2007.

13. International Auditing and Assurance Standards Board

The IAASB met in Madrid, Spain from 24 – 28 September 2007. Click [here](#) for the background papers and the forthcoming meeting summary and audio recording of the meeting.

14. International Ethics Standards Board for Accountants

The IESBA will meet in Toronto, Canada from 24 – 26 October 2007. Click [here](#) to register for the October meeting and access the minutes, meeting summary and background papers of the June 2007 meeting in Berlin, Germany.

For Information

15. Companies Registry News

- (i) New section on “Compliance” on the Companies Registry’s website

The Companies Registry has introduced a new “**Compliance**” section to provide an overview of a company’s obligations in complying with the Companies Ordinance, in particular, the filing of Annual Returns. Companies are welcomed to subscribe to the [Annual Return e-Alert Service](#) to receive an email notification for submission of their annual return on a specified date.

- (ii) Customer Service Survey 2007

The results of a Companies Registry [Customer Service Survey 2007](#) have been posted on its website.

Comment Due Dates

15 October 2007: IAASB Exposure Drafts of

- ISA 510 (Redrafted) *The Initial Audit Engagement – Opening Balances*
- ISA 530 (Redrafted) *Audit Sampling*

15 November 2007: IAASB Exposure Drafts of

- ISA 700 (Redrafted) *The Independent Auditor's Report on General Purpose Financial Statements*
- ISA 705 (Revised and Redrafted) *Modifications to the Opinion in the Independent Auditor's Report*
- ISA 706 (Revised and Redrafted) *Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report*
- ISA 800 (Revised and Redrafted) *Special Considerations – Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
- ISA 805 (Revised and Redrafted) *Engagements to Report on Summary Financial Statements*

3 December 2007: IAASB Exposure Draft of proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting*

14 December 2007: IAASB Exposure Drafts of

- ISA 220 (Redrafted) *Quality Control for an Audit of Financial Statements*
- ISQC 1 (Redrafted) *Quality Control for Firms that Perform Audits and Reviews of Financial Statement, and Other Assurance and Related Services Engagements*

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