



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

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## Spotlight

### 1. Joint Seminar on PN 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries*

The Institute and the SFC will hold a **joint seminar** on PN 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries* on 12 January 2008. The deadline for enrolment is 9 January 2008.

To secure your seats, register early via **online registration** or complete the registration form attached to the flyer and return it to the Institute.

### 2. Handbook Update No. 45

**Update No. 45** encloses a revised Statement 1.500 Continuing Professional Development (issued November 2007), which is revised to align with the International Education Standard 7 ("IES 7") issued by the International Federation of Accountants for the purpose of giving a clearer guidance to members in complying with CPD requirements. It is applicable to CPD reporting periods beginning on or after 1 December 2007.

The existing Statement 1.500 Continuing Professional Development (issued August 2005) is re-titled Statement 1.500A, and replaces the existing Statement 1.500A Continuing Professional Development (issued September 2004).

## Financial Reporting

### 3. Invitation to Comment on IASB Exposure Drafts

- (i) Proposed amendments to IFRS 1 and IAS 27

The Institute has issued an **Invitation to Comment** on 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, with comments requested by **28 January 2008**.

The ED was developed in response to comments received on a related ED published in January 2007. The proposed amendments are as follows:

Amendments to IFRS 1:

- a proposal to allow entities, in their separate financial statements, to use a deemed cost option for determining the cost (in accordance with paragraph 37 of IAS 27) of an investment;
- the use of either fair value (determined in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*) or the carrying amount at that deemed cost under previous national standards; and
- a change in the scope of the applicability of the deemed cost option to include jointly controlled entities and associates as well as subsidiaries.

Amendments to IAS 27:

- removal of the "cost method" from paragraph 4; and
- a proposal to require a new parent to measure cost using the carrying amounts of the existing entity at the date when the new parent is formed.

- (ii) Proposed amendments to IFRS 2 and IFRIC 11

The Institute has issued an **Invitation to Comment** on IASB ED of Proposed Amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRIC 2 Group and Treasury Share Transactions – Group Cash-settled Share-based Payment Transactions*, with comments requested by **25 February 2008**.

The ED proposes to provide guidance on how a group entity that receives goods or services from its suppliers (including employees) should account for the following arrangements, known as group cash-settled share-based payment transactions:

- Arrangement 1 – the entity’s suppliers will receive cash payments that are linked to the price of the equity instruments of the entity.
- Arrangement 2 – the entity’s suppliers will receive cash payments that are linked to the price of the equity instruments of the entity’s parent.

Under either arrangement, the entity’s parent has an obligation to make the required cash payments to the entity’s suppliers. The entity itself does not have any obligation to make such payments.

The proposed amendment to IFRS 2 clarifies that IFRS 2 applies to such arrangements even if the entity that receives goods or services from its suppliers has no obligation to make the required share-based cash payments.

The proposed amendment to IFRIC 11 specifies that the entity should measure the goods or services in accordance with the requirements for cash-settled share-based payment transactions.

#### 4. FRSC Meeting Summary – 14 November 2007

This [FRSC meeting summary](#) covers:

- IASB Standards Advisory Council – progress report
- IASB ED of a proposed *IFRS for SMEs*
- IASB Discussion Paper *Preliminary Views on Insurance Contracts*
- IASB ED of proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting*

- IASB ED 9 *Joint Arrangements*
- Proposed Amendments to HKFRS 3 *Business Combinations* and HKAS 27 *Consolidated and Separate Financial Statements*
- HKICPA/HKEx Joint Forum
- Announced change in HK Profits Tax Rate in the Policy Address
- International Working Group on Lease Accounting

### Audit & Assurance

#### 5. Invitation to Comment on Revised PN 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries*

The Institute has issued an [Invitation to Comment](#) on revised PN 820 for comments by **29 February 2008**.

The proposed PN 820 has been revised in the following aspects:

- Updated Part II to reflect the new Hong Kong Standards on Auditing replacing Statements of Auditing Standards (“SASs”).
- Restructured Part III to separate guidance regarding management and auditor’s responsibilities for greater clarity.
- Updated example auditor’s report in line with HKSA 700 *The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements*, details of which were also available in the HKICPA circular dated 19 January 2007.
- Deletion of certain references to Auditing Standards in Part II of the extant PN 820, where it was considered that the extant guidance were merely generic guidance applicable to all audits, e.g., SAS 420 *Auditing of accounting estimates*, SAS 500A *Considering the work of internal auditing*, SAS 520 *Using the work of an expert*.

- Deletion of examples 1A and 2A of Appendix 1 relating to straddle reports, which are no longer applicable.

In addition to the above, there are some detailed improvement changes developed in consultation with the SFC, which include paragraphs 33, 49, 55, 64 and 121 of the Practice Note, and the following guidance:

- Guidance on deposit or registration of client securities and securities collateral (Appendix 2 – paragraph 18(l)).
- Guidance on the new requirement of pledging limit (Appendix 2 – paragraphs 19(e), 20(e) and 21(h)).
- Additional guidance on performance of a circularisation of clients' account balances (Appendix 2 – paragraphs 27(b), 27(c), 27(h) and 27(i)).

## 6. Institute Comments on IAASB Consultation Paper on Proposed Strategy for 2009 – 2011

The Institute's **submission** to the IAASB on the Proposed Strategy for 2009 – 2011 indicates that it is supportive of IAASB's work to promote acceptance of International Standards on Auditing ("ISAs") as an appropriate benchmark of audit quality by the world's capital markets and to facilitate the implementation of ISAs to the extent possible and consistent with the role of an international standard setter.

The Institute's submission includes:

- repeating its request for the IAASB to consider producing a set of high quality International Standards on Investment Circular Reporting, which had previously been raised in the Institute's submission dated 23 February 2007 to the IAASB on its Strategic Review Questionnaire; and
- not supporting a new project proposed by the IAASB to explore the concept of an alternative assurance service for SMEs.

## 7. Institute Comments on IAASB Exposure Drafts

The Institute's submissions to the IAASB on the following exposure drafts indicate that it is supportive of the redrafting and that, generally, the objectives to be achieved by the auditor, as stated in the proposed redrafted ISAs, are appropriate.

Other comments include:

- (a) Proposed ISA 700 (Redrafted) *The Independent Auditor's Report on General Purpose Financial Statements*

The proposed ISA 700 is redrafted to contain clearer requirements and easy to understand application guidance, with no changes proposed to the requirements in the standard other than that it would be possible to give a "present fairly" opinion on a single financial statement, if the Financial Reporting Framework in Country X allows (Paragraph 7 and Illustration 3).

As indicated in the **submission**, the Institute disagrees with paragraph 7 of the proposed ISA, which states that financial statements could be a single financial statement. The Institute believes that any engagement of such nature should be within the scope of ISA 800 *Special Considerations – Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*. This will clarify that a "true and fair" opinion can only be given for a complete set of general purpose financial statements and not for a single financial statement.

The Institute therefore recommends that the IAASB consider moving Illustration 3 to ISA 800 and removing any reference to "fair" presentation in Illustration 3. In the event that the IAASB retains Illustration 3 and the principle that a true and fair opinion could be expressed on a single financial statement in the proposed ISA 700, the Institute is of the view that this should be clearly articulated in the body of the proposed ISA with appropriate specific guidance.

As the proposed ISA is currently drafted, for jurisdictions that have not been allowing a “true and fair” opinion on a component of financial statements, the Institute is not aware of a financial reporting framework that would allow this practice. Some examples of financial reporting frameworks that allow this practice should be included in the final ISA.

- (b) Proposed ISA 800 (Revised and Redrafted) *Special Considerations – Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

The [submission](#) indicates that the Institute has no major concerns on the proposed ISA 800 other than Illustration 3 in the Appendix to the proposed ISA, whereby a true and fair opinion could be expressed on a single financial statement (statement of cash receipts and disbursement) for the reasons mentioned in (a) above.

- (c) Proposed ISA 805 (Revised and Redrafted) *Engagements to Report on Summary Financial Statements*

As indicated in the [submission](#), the Institute has expressed concerns with the proposed ISA in that the IAASB proposed that an auditor should form an opinion on whether the summary financial statements are a fair summary of the audited financial statements in accordance with the applied criteria.

The Institute is of the view that an auditor is not in a position to give an opinion on the fair summary of the audited financial statements in accordance with the applied criteria. It suggests the IAASB retain the opinion in the extant ISA such that the information in the summarised financial statements is consistent, in all material respect, with the audited financial statements from which they are derived.

## 8. AASC Meeting Summary – 20 November 2007

This [AASC meeting summary](#) covers:

- Draft submission to the IAASB Consultation Paper on Proposed Strategy for 2009-2011
- Draft submissions to the following IAASB EDs:
  - 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*
- Proposed Circular on Reporting on General Charitable Fund-raising Activities Covered by Public Subscriptions Permits issued by the Social Welfare Department (Other than Flag Days)
- Continuing Connected Transactions Project – Progress Report
- ED of Revised PN 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries*
- Final Notes for Auditor and Candidate issued by Registration and Electoral Office
- 2007 Auditing Update Conference – Update report



## Ethics

### 9. Ethics Committee Meeting Summary – 21 November 2007

This [EC meeting summary](#) covers:

- HKICPA submissions to IESBA in 2007
- Proposed HKICPA Consultation Paper on the definition of “Entities of Significant Public Interest” for incorporation into the HKICPA Code of Ethics for Professional Accountants
- Section 250 of the HKICPA Code of Ethics for Professional Accountants “Marketing Professional Services”

## Insolvency & Corporate Restructuring

### 10. ORO Invites Tenders for Taking Up of Appointment as Provisional Trustee

Following the passage of amendments to the Bankruptcy Ordinance and rules (see [TechWatch No. 57](#)), the Official Receiver's Office (“ORO”) has initiated a pilot scheme to contract out bankruptcy administrations. It is inviting practitioners to submit tenders for taking up appointments as provisional trustee under section 12(1A) of the Bankruptcy Ordinance. The deadline for submission is 28 January 2008 at 12:00 noon.

The tender form and relevant documents, including the eligibility criteria, can be obtained from the ORO at 10<sup>th</sup> Floor, Queensway Government Offices, 66 Queensway, Hong Kong or downloaded from the [ORO's website](#).

## Taxation

### 11. Institute Submits Budget Proposals 2008/09 to the Financial Secretary

The Institute submitted proposals for the 2008/09 budget to the Financial Secretary on 20 December 2007. The Institute's Taxation Committee chair, Ms. Yvonne Law and the Budget Proposals 2008/09 Sub-committee convenor, Mr. Alexander Mak, explained the

proposals to the media at a [briefing](#) held on the same day. The title of this year's submission is “[Threats and Opportunities: Hong Kong's Olympian Challenges](#)”.

In view of the improving fiscal performance, the Institute recommends reducing the marginal salaries tax rates by one per cent, and broadening the salaries tax band from HK\$35,000 to HK\$40,000. It is not recommending any change in personal allowances.

While supporting the chief executive's proposal to reduce corporate profits tax rate and the standard rate of salaries tax by one per cent, the Institute urges the government to conduct a study with a view to implementing further reductions in Hong Kong's profits tax rate to keep in line with global trends.

In order to help young and middle-income families survive property inflation, the Institute proposes raising the ceiling for the stamp duty fee of HK\$100 for properties costing up to HK\$3 million, with the goal of keeping the ceiling in line with the property price index.

The Institute remains concerned about the increasing level of uncertainty in key areas of the tax system. The submission recommends that a time limit for audits of tax returns be built into the Inland Revenue Ordinance to provide that a tax return normally be regarded as final if the Inland Revenue Department does not begin enquiries within a year of filing.

The Institute also urges the government act to improve the deteriorating environment by applying the “polluter pays” principle more widely, with add-on taxes. Meanwhile, in order to encourage safe maintenance of older buildings, the Institute proposes a tax allowance for property owners for actual renovation expenses incurred, subject to a maximum amount, as an alternative to the existing 20 per cent wear and tear.

To support Hong Kong as a business and financial centre, the Institute advocates giving regional headquarters full profits tax exemption

for management and consultancy income derived by the Hong Kong entity from associated entities overseas. The submission also contains proposals to extend the depreciation allowances for the acquisition of intellectual property, and concessions for international/cross-border freight business such as a three-year reduced profits tax rate.

A summary of the main proposals is set out in Part A(9) of the [submission](#).

### International Meetings

## 12. International Accounting Standards Board

The IASB met in London on 11 – 14 December 2007 and discussed the following topics:

- Agenda proposals
- Technical plan
- Annual improvements process
- Fair value measurements
- Revenue recognition
- IAS 37 redeliberations
- Conceptual framework
- Preface to International Financial Reporting Standards
- Post-employment benefits
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- Derecognising assets and liabilities
- Puttable financial instruments and obligations arising on liquidation
- Liabilities and Equity

Click [here](#) to view the December 2007 IASB Update. The IASB next meets on 21 – 25 January 2008.

## 13. International Financial Reporting Interpretations Committee

The IFRIC will meet in London on 10 – 11 January 2008. Click [here](#) for the forthcoming meeting papers. Further details about the meeting will be reported in the next issue of TechWatch.

## 14. International Auditing and Assurance Standards Board

The IAASB will meet in New York, USA from 10 – 14 March 2008. Click [here](#) for registration and for the background papers, audio recording and the forthcoming meeting summary of the December meeting, which took place in Washington DC, USA on 10 – 14 December 2007.

## 15. International Ethics Standards Board for Accountants

The IESBA will meet in Amsterdam, Netherlands on 21 – 23 January 2008. Click [here](#) for registration and the background papers for the January 2008 meeting, and the forthcoming meeting summary of the November 2007 Conference Call.

### For Information

## 16. Updated Information for Non-Hong Kong Companies

The Companies Registry has updated the following information to accommodate the legislative changes in the Companies (Amendment) Ordinance and Companies Ordinance (Amendment of Eight Schedule) Order 2007 for non-Hong Kong companies:

- a. [Memorandum on regulation of use of corporate names](#)
- b. [Major fees](#)
- c. Information pamphlets:
  - [Price guide to main services](#)
  - [How to purchase specified forms](#)



- [Registration of a non-Hong Kong company](#)
- [Filing of annual return by a non-Hong Kong company](#)
- [Registration of charges and their discharge](#)
- [Filing requirements of a non-Hong Kong company after registration](#)
- [How to obtain company information](#)
- [A company's obligations after registration](#)

d. Frequently asked questions:

- [Registration of charges and their discharge](#)
- [Non-Hong Kong company](#)
- [Electronic search services](#)

## 17. Revised Companies Registry Specified Forms for Local Companies

The Companies Registry announced the revision of five specified forms, namely, AR1, AR2, AR3, D3 and D6, with effect from 14 December 2007. The forms are revised to include a confirmatory statement in relation to the “Non-statutory Guidelines on Directors’ Duties”, which outlining the general principles a director should follow in the performance of his functions and exercise of his powers.

The forms can be [downloaded](#) from the Companies Registry’s website. A complete set of all specified forms in CD-ROM and hard copies are available for purchase at the Companies Registry on 14th floor, Queensway Government Offices, 66 Queensway, Hong Kong. More details are contained in the [external circular No. 5/2007](#).

## 18. New Publications

- (a) Deloitte has published [IFRS Model Financial Statements for 2007](#), which

illustrates the application of the presentation and disclosure requirements of IFRSs.

- (b) The UK Auditing Practices Board has published a [Guidance for smaller entity audit documentation](#), which provides guidance to auditors on the application of documentation requirements to the audit of smaller entities financial statements.
- (c) Ernst & Young has published a [guide](#) on valuing employee share options under IFRS 2 *Share-based Payment*.
- (d) PricewaterhouseCoopers has released a publication on [illustrative corporate consolidated financial statements 2007](#).

### Comment Due Dates

**25 January 2008:** [IAASB Exposure Drafts](#) of ISA 505 (Revised and Redrafted) *External Confirmations* and ISA 620 (Revised and Redrafted) *Using the Work of an Auditor’s Expert*

**28 January 2008:** [IASB Exposure Draft](#) 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*

**31 January 2008:** [Discussion Paper](#) *Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting*

**25 February 2008:** [IASB Exposure Draft](#) of Proposed Amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRIC 2 Group and Treasury Share Transactions – Group Cash-settled Share-based Payment Transactions*

**29 February 2008:** [Exposure Draft](#) of revised Practice Note 820 *The Audit of Licensed Corporations and Associated Entities of Intermediaries*

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