



# TechWatch News at a glance

Issue 78 • March/April 2009

TechWatch updates you on technical developments in financial reporting, auditing, regulation and business. The Institute welcomes your comment, emailed to < [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk) >. Click [here](#) for past issues.

## Contents

### Financial Reporting, Auditing and Ethics

#### New!

1. [Financial Reporting Forum – Stay Tuned for the Developments of HKFRS/IFRS – 24 April 2009](#)
2. [Financial Reporting and Auditing Alert – Issue 2](#)
3. [China Convergence Update No. 1](#)
4. [Updates to SMP and SME Resource Centre](#)

#### Members' Handbook

5. [Handbook Update No. 62](#)
6. [Handbook Update No. 63](#)

#### Financial Reporting

7. [HKFRS Insights on Impairment of Non-financial Assets in the Current Crisis](#)
8. [Invitation to Comment on IASB Request for Views - FASB Proposals on Fair Value Measurement and Impairments of Financial Instruments](#)
9. [Institute Comments on IASB Draft Pronouncements](#)

#### Audit & Assurance

10. [AASC Meeting Summary](#)
11. [Status of Clarity Project](#)
12. [Chinese Translations of Auditors Reports](#)
13. [New Arrangement for Engaging CPA \(Practising\) under the Capital Investment Entrant Scheme](#)

#### Ethics

14. [Ethics Committee Meeting Summary](#)

#### International Meetings

15. [IASB](#)
16. [IFRIC](#)
17. [IAASB](#)
18. [IESBA](#)

#### Useful Resources

19. [Publications](#)

#### Comment Due Dates

### Specialist Practices, Business Members and Advocacy

#### New!

20. [PAIB Evening Forum and Cocktail Reception – 23 April 2009](#)

#### Taxation

21. [G20 Opposes Tax Secrecy](#)

#### Legislation & Other Initiatives

22. [G20 Communiqué](#)
23. [New Sections on Companies Registry's Website](#)
24. [Notices Relating to Anti-money Laundering / Combating Terrorism Financing](#)

#### Useful Resources

25. [New Books in the Library](#)
26. [Other Publications](#)

*Financial Reporting, Auditing and Ethics by:*  
Steve Ong (Editor), Selene Ho, Winnie Chan, Katherine Leung, Ben Lo

*Specialist Practices, Business Members and Advocacy by:*  
Elena Chai (Editor), Peter Tisman, Mary Lam, Sharon Yeung

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.

## Financial Reporting, Auditing and Ethics

### New!

#### 1. Financial Reporting Forum – Stay Tuned for the Developments of HKFRS/IFRS - 24 April 2009

The Institute will hold a Financial Reporting Forum – Stay tuned for the developments of HKFRS/IFRS on 24 April 2009. Highly regarded experts will share their views on the following:

- Financial reporting matters related to the financial crisis
- IFRS future developments
- Estimating fair value of financial instruments in inactive markets
- Application of HKFRS 7 *Financial Instruments: Disclosures*
- Accounting standards and disclosures for off-balance sheet vehicles
- FASB Staff Position on other-than-temporary impairments

To secure seats, please register early by completing the [registration form](#).

#### 2. Financial Reporting and Auditing Alert – Issue 2

The Institute issued [Financial Reporting and Auditing Alert – Issue 2](#): Assessing an entity's ability to continue as a going concern.

In the context of the current global financial crisis, it is clear that the judgment that management, those charged with governance and auditors must make on whether an entity is a going concern is emerging as a highly sensitive issue. Accordingly, addressing these challenges early in the process of the preparation of annual reports and financial statements and their audit are important to help

avoid last minute problems or surprises that may unnecessarily unsettle investors, lenders, regulators and analysts.

#### 3. China Convergence Update No. 1

The Institute issued [China Convergence Update No. 1](#) to provide the current status of convergence of Financial Reporting Standards between Mainland China and Hong Kong. After the Joint Declaration was signed on 6 December 2007, significant work has been carried out between the China Accounting Standards Committee under the Ministry of Finance and the Institute. This is to maintain the convergence of Accounting Standards for Business Enterprises (“ASBEs”) and HKFRSs on an ongoing basis.

#### 4. Updates to SMP and SME Resource Centre

New publications and guidance are available in the [SMP and SME Resource Centre](#):

- Going concern
- Quality control for SMP
- Disclosure about financial instruments
- Simple guide to income tax accounting

### Members' Handbook

#### 5. Handbook Update No. 62

In [Update No. 62](#), the Institute issues [amendments to HKFRS 7 \*Financial Instruments: Disclosures\*](#) – Improving Disclosures about Financial Instruments.

Amendments to HKFRS 7 *Financial Instruments: Disclosures* – Improving Disclosures about Financial Instruments form part of the focused response to the financial crisis and addresses the G20 conclusions aimed at improved transparency and enhanced accounting guidance. The amendments also reflect discussions on measuring and disclosing fair values of financial instruments when markets are no longer active.

The amendments introduce a three-level hierarchy for fair value measurement disclosures as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities the effects of fair value measurements.

In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. This ensures that the disclosures enable users of an entity's financial statements to evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity manages that risk.

The amendments apply for annual periods beginning on or after 1 January 2009. However, an entity will not be required to provide comparative disclosures in the first year of application.

## 6. Handbook Update No. 63

In **Update No. 63**, the Institute issues **amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives**.

Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* clarify the accounting treatment of embedded

derivatives for entities that make use of the reclassification amendment issued in October 2008.

The reclassification amendment allows entities to reclassify particular financial instruments out of the 'at fair value through profit or loss' category in specific circumstances. The amendments to HK(IFRIC)-Int 9 and HKAS 39 clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements.

The amendments form part of the response to views received in the round table discussions organized by the IASB and the US Financial Accounting Standards Board in November and December 2008. Participants asked the IASB to clarify the accounting treatment of embedded derivatives in the reclassification amendments in order to avoid divergence in practice.

The amendments set out in *Embedded Derivatives* apply retrospectively and are required to be applied for annual periods ending on or after 30 June 2009.

## Financial Reporting

### 7. HKFRS Insights on Impairment of Non-financial Assets in the Current Crisis

The recent high level of volatility resulting from the downturn in the economy implies that assets and businesses in many industries will generate lower cash flows than expected. This increases the likelihood that impairment charges may well be required on the non-financial assets. Management should reassess the business plan and assumptions used in relation to the expected cash flows used in their impairment reviews.

Uncertainties relating to the current economic downturn should be reflected in the impairment reviews through the risk premium included in the discount rate or through probability-weighted cash flows.

For practical guidance on the impairment review, members may refer to:

- **Questions and answers on impairment of non-financial assets in the current crisis** (November 2008) by PwC
- **HKFRS news on impairment of non-financial assets in the current crisis** (January 2009) by PwC

## 8. Invitation to Comment on IASB Request for Views – FASB Proposals on Fair Value Measurement and Impairments of Financial Instruments

The Institute has issued an **Invitation to Comment** on IASB request for views on the proposals from the FASB that deal with guidance on fair value measurement and impairments of financial instruments, with comments requested by 14 April 2009.

The FASB proposals are in the form of draft staff positions and are intended to:

- provide additional application guidance on fair value measurement; and
- amend the impairment requirements for certain investments in debt and equity securities.

A summary of the main proposals is set out in the Appendix to the Invitation to Comment.

## 9. Institute Comments on IASB Draft Pronouncements

- (i) IASB Exposure Draft (“ED”) of Proposed Amendments to IAS 24 *Relationships with the State*

The Institute’s **submission** supports the proposals in the ED on the revised definition of a related party and the exemption from paragraph 17 on transactions between state-controlled entities and with the state.

The Institute requests that the IASB provides relief from disclosure of IFRS 8 under the single customer concept together with the issuance of the finalized revised

IAS 24. This is because the application of this requirement in IFRS 8 by any entities with significant or diverse operations in Mainland China will lead to the same data gathering, information overload and cost-benefit.

- (ii) IASB ED of Additional Exemptions for First-time Adopters

The Institute made a **submission** to IASB to consider ways to assist Hong Kong to claim dual compliance of HKFRSs and IFRSs. Furthermore, the Institute wrote with the purpose of sharing the convergence experience in Hong Kong so that the IASB consider recommendations to those countries that are going to adopt IFRSs, to adopt IFRS 1 to avoid finding themselves in the position Hong Kong now finds itself in.

- (iii) IASB ED 10 *Consolidated Financial Statements*

The Institute’s **submission** supports the IASB’s effort to give the consolidation project a higher priority as a result of the financial crisis, and supports the development of a principle-based standard based on control and applicable to all types of entities.

However, the Institute has the following concerns:

- The lack of clarity and guidance provided on the application of the proposed control principle. Specifically the need to clarify certain aspects with additional application guidance in the ability to influence the actions of others through voting rights exercisable in the future and the principal-agent relationship in circumstances where the reporting entity has dual roles.
- Two different sets of criteria in assessing control of normal entities and structured entities. This dichotomy may result in practical implementation difficulties and a different consolidation and disclosure result depending on which category of entity fall into, which

would give rise to structuring opportunities; and

- Voluminous disclosures that may obscure important information in the financial statements. It is believed that a general principle behind these disclosures should be established that requires disclosures to be made to the extent they are necessary to obtain an understanding of the risks to the reporting entity arising from its off-balance sheet arrangements.

(iv) IASC Foundation Discussion Document on *Review of the Constitution: Identifying Issues for Part 2 of the Review*

The Institute's **submission** supports the objectives and governance structure of the trustees and the IASB as currently set out in the constitution. It is important to maintain the independence of the standard-setting process while ensuring that the urgent needs of different jurisdictions are addressed appropriately and on a timely basis.

As increasingly more countries adopt IFRS, it is important for an effective mechanism to follow up on issues raised by particular jurisdictions so that proper explanations and guidance are provided, ensuring transparency of the IASB standard setting process.

## Audit & Assurance

### 10. AASC Meeting Summary – 24 February 2009

This **AASC meeting summary** covers:

- Meeting schedule for 2009
- Proposed work plan for 2009
- Adoption of new IAASB pronouncements
- Draft examples modified auditor's reports on financial statements prepared in accordance with SME-FRS

- Revised draft of Chinese translation of example unqualified auditor's report on financial statements prepared in accordance with SME-FRS
- Progress report on Hong Kong's Immigration Department Capital Investment Entrant Scheme Project

### 11. Status of Clarity Project

The IAASB has completed its Clarity Project, in which all of the ISAs and ISQC 1 have been reviewed and redrafted in a new clarified style that makes the standards easier to understand, translate, and implement.

The final set of clarified standards includes:

- One new ISA on communicating deficiencies in internal control;
- 16 ISAs containing new and revised requirements;
- 19 ISAs that have been redrafted only to reflect the new clarity style; and
- One ISQC redrafted to reflect the new clarity style.

The Institute is in the process of adopting and converging these clarified standards as HKSA's and HKSQC. The process is expected to be completed in the second quarter of 2009.

Click [here](#) for the details of the Clarity Project from the IAASB Clarity Centre.

### 12. Chinese Translations of Auditor's Reports

Suggested Chinese translations of the following auditor's reports are now available:

- **An unqualified auditor's report based on HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements***
- **An unqualified auditor's report on financial statements prepared in accordance with SME-FRS**

### 13. New Arrangement for Engaging CPA (Practising) under the Capital Investment Entrant Scheme

The Hong Kong Immigration Department announced a new arrangement to shorten the processing time of applications submitted under the Capital Investment Entrant Scheme and is effective from 16 March 2009.

Upon the implementation of the new arrangement, applicants may at their own cost engage a CPA (Practising) to issue a report to demonstrate that they meet the relevant assets requirement.

The Institute has been working closely with the Immigration Department to develop guidance for CPA (Practising). Click [here](#) for the details of the new arrangement and the guidance.

#### Ethics

### 14. Ethics Committee Meeting Summary – 4 September 2008

This [EC meeting summary](#) covers:

- Draft submission on IESBA Re-Exposure Draft on Section 290 (Independence – Audit and Review Engagements) of the Code of Ethics for Professional Accountants on Internal Audit Services and Relative Size of Fees
- Invitation to Comment on IESBA ED on the Code of Ethics
- Proposed consultation paper on the proposed identification of Hong Kong Entities of Significant Public Interest for incorporation into the HKICPA Code of Ethics for Professional Accountants

#### International Meetings

### 15. International Accounting Standards Board

The IASB met in March 2009 and discussed the following topics:

- Global financial crisis

- Conceptual framework
- Emissions trading schemes
- Financial instruments – recognition and measurement
- Financial instruments with characteristics of equity
- Financial statement presentation
- IFRIC
- IFRS for non-publicly accountable entities
- Insurance contracts
- Loan losses
- Post-employment benefits
- Revenue recognition
- Annual improvements
- Updates

Click [here](#) to view the March IASB Update. The IASB next meets in April 2009.

### 16. International Financial Reporting Interpretations Committee

The IFRIC met in March 2009 and discussed the following topics:

- Update on IFRIC projects since the meeting in November 2008
- Compliance costs for Registration, Evaluation, Authorisation and Restriction of Chemicals
- IAS 7 *Statement of Cash Flows* — Determination of cash equivalents
- IAS 28 *Investments in Associates* — Partial use of fair value through profit or loss
- Agenda decisions

- Tentative agenda decisions
- Work in progress

Click [here](#) to view the March IFRIC update. The IFRIC next meets in May 2009.

## 17. International Auditing and Assurance Standards Board

The IAASB next meets in June 2009. Click [here](#) for the next meeting's details and previous meeting summary.

## 18. International Ethics Standards Board for Accountants

The IESBA next meets in April 2009. Click [here](#) for the next meeting's details and previous meeting summary.

### Useful Resources

## 19. Publications

The following are publications on various topics:

- (i) China convergence:
  - [Update](#) by the Institute
- (ii) Income tax accounting:
  - [HKFRS news](#) by PwC
- (iii) Business combinations:
  - [IFRS outlook](#) by Ernst & Young
- (iv) SMP quality control:
  - [Guide](#) by IFAC
- (v) Going concern
  - [Financial reporting and auditing alert - Issue 2](#) by the Institute
  - [Update](#) by UK Financial Reporting Council

- (vi) Embedded derivatives
  - [IAS plus](#) by Deloitte
  - [IFRS briefing sheet](#) by KPMG
- (vii) Improving disclosures about financial instruments
  - [IAS plus](#) by Deloitte
  - [IFRS briefing sheet](#) by KPMG

### Comment Due Dates

**14 April 2009:** IASB request for views on the proposals from the FASB that deal with guidance on fair value measurement and impairments of financial instruments

**22 May 2009:** IASB discussion Paper on Preliminary Views on *Revenue Recognition in Contracts with Customers*

## Specialist Practices, Business Members, and Advocacy

### New!

## 20. PAIB Evening Forum and Cocktail Reception – 23 April 2009

Current issues in corporate governance, risk management and internal control will be the theme of a forum on 23 April 2009, hosted jointly by the Institute and IFAC's Professional Accountants in Business ("PAIB") Committee.

The IFAC PAIB Committee will be meeting in Hong Kong from 22 to 24 April 2009. Members of the Institute will be able to take opportunity of this forum to learn first hand about the work of the IFAC PAIB Committee and what IFAC is doing for PAIBs globally.

Before the discussion starts there will be a networking cocktail where local PAIBs can meet the international membership of the IFAC PAIB. Click [here](#) for more details.

## Taxation

### 21. G20 Opposes Tax Secrecy

Following the G20's call for action against tax secrecy, the OECD has **published** a progress report on the implementation of the internationally agreed tax standard on exchange of information. The **report** consists of four parts:

- jurisdictions that have substantially implemented the internationally agreed tax standard
- tax havens that have committed to the internationally agreed tax standard but have not yet substantially implemented it
- other financial centres that have committed to the internationally agreed tax standard but have not yet substantially implemented it
- jurisdictions that have not committed to implement the internationally agreed tax standard

In the report, China is listed as one of the jurisdictions that has substantially implemented the internationally agreed tax standard. The Special Administrative Regions are listed in a footnote as having committed to implement the internationally agreed tax standard.

For more background about the liberalization of exchange of tax information, members may refer to:

- **OECD principles on exchange of information for tax purposes: a model for bilateral conventions** by OECD
- **Hong Kong tax news flash** by PwC
- **Tax publication** by KPMG

## Legislation & Other Initiatives

### 22. G20 Communiqué

The leaders of the G20 met in London on 2 April 2009 to agree a way forward on resolving the financial crisis. In the **communiqué** following the meeting, the leaders pledged to do whatever is necessary to:

- restore confidence, growth, and jobs;
- repair the financial system to restore lending;
- strengthen financial regulation to rebuild trust;
- fund and reform our international financial institutions to overcome this crisis and prevent future ones;
- promote global trade and investment and reject protectionism, to underpin prosperity; and
- build an inclusive, green, and sustainable recovery.

Click [here](#) for the Institute's submission to the Hong Kong government for the G20 meeting.

### 23. New Sections on Companies Registry's Website

The following new sections are available on the Companies Registry's website:

- Compliance matters for the **annual return of a non-Hong Kong company**
- Licensing matters for **money lenders**

### 24. Notices Relating to Anti-money Laundering / Combating Terrorism Financing

Members may wish to note that the following updated statement has been published:

- **Financial Action Task Force on Money Laundering ("FATF") Statement:** Draws the attention of FATF members (Hong Kong has been a member since 1990) to take into account the risks of transactions involving Iran, Uzbekistan, Turkmenistan, Pakistan, São Tomé and Príncipe.



## Useful Resources

### 25. New Books in the Library

**Featured titles** and **new books** of high reference value for members are now available in the library.

### 26. Other Publications

The following are publications on various topics:

(i) AICPA, Economic Crisis Resource Centre

- **Risk management**
- **Strategic planning budgeting & forecasting**

(ii) ICAEW, Small Business Update

- **Eight ways to survive the downturn**