



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

## Contents

### Spotlight

1. [Technical Update Evening \(TUE\) Programme](#)

### Financial Reporting

2. [Invitations to Comment on IASB Discussion Papers](#)
  - (i) [Reducing Complexity in Reporting Financial Instruments](#)
  - (ii) [Preliminary Views on Amendments to IAS 19 Employee Benefits](#)
3. [Invitation to Comment on Proposed Amendments to SME-FRF and Proposed Sections of SME-FRS](#)
4. [Invitation to Comment on HKICPA Consultation Paper on Financial Reporting by Private Companies](#)
5. [Institute Comments on IFRIC Interpretation: D23 Distributions of Non-cash Assets to Owners](#)
6. [FRSC Meeting Summary – 1 April 2008](#)

### Audit & Assurance

7. [Institute Comments on IAASB Exposure Drafts](#)
  - (i) [ISA 265 Communicating Deficiencies in Internal Control](#)
  - (ii) [ISA 402 \(Revised and Redrafted\) Audit Considerations Relating to an Entity Using a Third Party Service Organisation](#)
8. [AASC Meeting Summary – 22 April 2008](#)

### Corporate Finance

9. [Institute Comments on SFC/HKEx Joint Consultation on E-Prospectuses](#)

### Corporate Governance

10. [Guidance on Developing an Effective Corporate Code of Conduct](#)

### Legislation & Other Initiatives

11. [Companies Registry Introduces New Company Incorporation Forms and Expanded Directors' Index](#)
12. [Revision of Companies Registry Specified Forms](#)
13. [United Nations Sanctions](#)

### International Meetings

14. [International Accounting Standards Board](#)
15. [International Financial Reporting Interpretations Committee](#)
16. [International Auditing and Assurance Standards Board](#)
17. [International Ethics Standards Board for Accountants](#)

### Comment Due Dates



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## Spotlight

### 1. Technical Update Evening (TUE) Programme

The **TUE programme** (June to August 2008) features a number of important financial reporting and auditing topics, which include:

- FAQs on HKFRSs, HKSAs and HKICPA Code of Ethics
- Issues in Implementing HKFRSs
- Discussion Paper – Reducing Complexity in Reporting Financial Instruments
- Points to Note for Auditors
- HK(IFRIC)-Int 13 *Customer Loyalty Programmes*
- HKAS 27 (Revised) *Consolidated and Separate Financial Statements*
- HKFRS 3 (Revised) *Business Combinations*
- Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- PN 820 (Revised) – *The Audit of Licensed Corporations and Associated Entities of Intermediaries*

To secure your seats, please register early by completing the [registration form](#) and returning it to the Institute.

## Financial Reporting

### 2. Invitations to Comment on IASB Discussion Papers

- (i) *Reducing Complexity in Reporting Financial Instruments*

The Institute has issued an [Invitation to Comment](#) on the above IASB discussion

paper, with comments requested by **15 August 2008**.

The discussion paper analyses the main causes of complexity in reporting financial instruments. It concludes that the long-term solution is a single measurement principle for all financial instruments within the scope of a standard. It also suggests three possible intermediate approaches that would improve and simplify measurement and hedge accounting requirements:

- amending the existing measurement requirements in IAS 39, for instance, by reducing the number of categories of financial instruments;
- replacing the existing IAS 39 measurement requirements with a fair value measurement principle and some optional exceptions to fair value measurement; and/or
- simplifying hedge accounting.

A summary of the three approaches and their possible implications are set out in the Appendix to the Invitation to Comment.

The discussion paper is the first stage in a project which aims to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It is designed to gather information to assist the IASB in deciding how to proceed in developing new standards that are principles-based and less complex than today's requirements.

- (ii) *Preliminary Views on Amendments to IAS 19 Employee Benefits*

The Institute has issued an [Invitation to Comment](#) on the above IASB discussion paper, with comments requested by **25 August 2008**.

The discussion paper represents the first step in a comprehensive project on the accounting for post-employment benefits. It addresses the main concerns expressed by

a wide range of interested parties that the accounting model sets out in the existing *IAS 19 Employee Benefits* is inadequate and should be revised.

The main concerns are:

- the deferral of the recognition of gains and losses in defined benefit plans leads to misleading figures in the statement of financial position;
- the multiple options for this deferral lead to impaired comparability across companies;
- the definitions of post-employment benefit plans lead to inconsistencies and impaired comparability for benefit promises that include a promised return on contributions linked to an asset or an index; and
- the required measurement method is inadequate for such benefit promises.

The discussion paper sets out the IASB's preliminary views on how to address the main concerns:

- remove the optional "corridor" deferral method for recognition of actuarial gains and losses in defined benefit plans and recognise all changes in the value of plan assets and the post-employment benefit obligation in the financial statements in the period in which they occur; and
- redefine post-employment benefit plans as contribution-based promises and defined benefit promises, with new measurement for contribution-based promises.

A summary of the key changes proposed in the discussion paper is set out in the Appendix to the Invitation to Comment.

The discussion paper focuses on improvements to IAS 19. The IASB will

review the responses to this paper, and modify or confirm its preliminary views. An exposure draft of amendments to IAS 19 will then be developed for public comment. In the longer term, the IASB intends to work with the US FASB towards a common standard on post-employment benefit promises.

### 3. Invitation to Comment on Proposed Amendments to SME-FRF and Proposed Sections of SME-FRS

The Institute has published an **Exposure Draft** on the Proposed Amendments to Small and Medium-sized Entity Financial Reporting Framework ("SME-FRF") and Proposed Sections of Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS"), with comments requested by **30 September 2008**.

The ED includes proposed sections on business combinations, consolidated financial statements, investment in associates, interests in joint ventures, cash flow statements and proposed amendments to other sections of SME-FRS.

The ED follows on from the consultation paper on the Rewrite of the Accounting and Auditing Provisions of the Hong Kong Companies Ordinance issued by the government in March 2007, which contains a proposal to extend the SME-FRF and SME-FRS to include group accounts. The consultation conclusion published on 26 March 2008 indicated that there is support for the SME-FRF and SME-FRS be amended to provide clear guidance on the preparation of consolidated financial statements. Accordingly, the Institute proposes that a private company, which is the holding company of a small group of companies, can apply the SME-FRF and SME-FRS in preparing its group accounts provided that certain "small group" size criteria are met.

In addition, the ED proposes to include a requirement for preparing cash flow statements under SME-FRS. The Institute is of the view that a cash flow statement is an integral part of a set of financial statements. Information presented in a cash flow statement is useful in

providing users of financial statements with a basis for assessing the ability of the entity to generate cash and cash equivalents, and enabling users to develop models to assess and compare the present value of future cash flows of different entities.

#### 4. Invitation to Comment on HKICPA Consultation Paper on Financial Reporting by Private Companies

The Institute has become aware that the application of Hong Kong Financial Reporting Standards (“HKFRSs”) by many private companies imposes a reporting burden on companies without a corresponding benefit in the increased usefulness of the information provided to the users of the financial statements of those companies.

In view of the above, the Institute has published a [Consultation Paper](#) on Financial Reporting by Private Companies, which seeks views as to whether the reporting burden of private companies should be reduced by introducing a financial reporting framework for large private companies. The paper discusses:

- the need to reduce reporting burden of private companies;
- strengths and weaknesses of HKFRSs and SME-FRF&FRS;
- opportunity for change of current financial reporting framework; and
- proposed financial reporting frameworks for large private companies and their implications.

Comments on the consultation paper are requested by **30 September 2008**.

#### 5. Institute Comments on IFRIC Interpretation: D23 *Distributions of Non-cash Assets to Owners*

IFRIC Draft Interpretation D23 proposes that all types of distributions of non-cash assets would be measured at the fair value of the assets

distributed. Therefore, when an entity settles the dividend payable, it should recognise any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss. D23 would not apply to a distribution of an asset to another entity within the same consolidated group.

The Institute’s [submission](#) recommends that the IFRIC withdraws the proposed Interpretation. The Institute has concerns that the scope of the proposed Interpretation is limited, and the proposal would produce an accounting mismatch caused by differences in measurements.

The Institute is aware that the IASB currently has a project on common control transactions on its active agenda and therefore would prefer a more comprehensive process being carried out by the IASB to address all transactions with shareholders.

#### 6. FRSC Meeting Summary – 1 April 2008

This [FRSC meeting summary](#) covers:

- Project on full compliance with IFRSs
- Draft sections on group accounts to be included in the SME-FRS
- Draft Consultation Paper on Financial Reporting by Private Companies
- National Standard Setters Meeting
- IFRIC Draft Interpretation D23 *Distributions of Non-cash Assets to Owners*
- IFRIC Draft Interpretation D24 *Customer Contributions*
- Invitation to Comment on IASB Discussion Paper on *Financial Instruments with Characteristics of Equity*
- Referral from Professional Standards Monitoring Committee

## Audit & Assurance

### 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 ISAs, are appropriate.

The Institute's comments include:

#### ***ISA 265 Communicating Deficiencies in Internal Control***

This new proposed standard is intended to deal with the auditor's responsibility to communicate to management and those charged with governance deficiencies in internal control that have been identified by the auditor.

The Institute has no concerns on the proposed ISA other than recommending the IAASB to consider providing additional guidance on communication of deficiencies to management.

#### ***ISA 402 (Revised and Redrafted) Audit Considerations Relating to an Entity Using a Third Party Service Organisation***

The proposed ISA deals with the auditor's responsibilities to obtain audit evidence when an entity uses one or more service organizations. This may include obtaining reports prepared by the auditors of those organizations.

The IAASB has also requested views on the feasibility of the ISA being adapted, as necessary in the circumstance, to situations where an entity uses a shared service center which provides services to a group of related entities.

The Institute has no major concerns with the proposed ISA and the proposal to adapt the ISA

to an entity using a shared service center which provides services to a group of related entities.

### 8. AASC Meeting Summary – 22 April 2008

This [AASC meeting summary](#) covers:

- Draft submissions to the IAASB exposure drafts on ISA 265 and ISA 402.
- Progress report on Continuing Connected Transactions
- Proposed revision of paragraph 21 of the Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services

## Corporate Finance

### 9. Institute Comments on SFC/HKEx Joint Consultation on E-Prospectuses

As reported in [TechWatch No. 67](#), the Institute's Corporate Finance Committee ("CFC") considered the SFC/HKEx [joint consultation paper](#), which sought views on a proposal to allow paper application forms for public offers to be handed out at receiving banks, without also having to hand out printed prospectuses, if electronic prospectuses are available electronically on certain prescribed websites and other requirements aimed at investor protection are satisfied.

While supporting the proposal in principle, the CFC expressed concern about the practicality of the proposed contingency plan in cases where there is continuous inaccessibility of an electronic prospectus for downloading for four consecutive hours. Under such circumstances, paper application forms must be supplied together with printed copies of the prospectus until such time as the electronic prospectus becomes available for downloading again. In its [submission](#), the CFC suggests an alternative, more practical contingency plan to deal with such eventualities.

## Corporate Governance

### 10. Guidance on Developing an Effective Corporate Code of Conduct

Acknowledging the value for listed companies, public interest and other organisations in Hong Kong to develop or enhance an in-house code of conduct, the Institute, together with Hong Kong Exchanges and Clearing and the Hong Kong Institute of Directors, added a local foreword to an IFAC (Professional Accountants in Business Committee) International Good Practice Guide, entitled **Defining and Developing an Effective Code of Conduct for Organisations**, and held a media briefing to launch the guide in Hong Kong.

The guide, which the Institute commented on during the drafting stage, aims to assist organisations in developing a code of conduct for the first time or help them to improve an existing code. While it does not purport to provide detailed and prescriptive answers for individual organisations, it nevertheless sets out a road map with key principles and guidance to help and encourage all types of organisation to ask the right questions of themselves and to develop their own specific codes of conduct that take account of their own circumstances. The Institute is currently arranging a Chinese translation of the guide for wider distribution.

## Legislation & Other Initiatives

### 11. Companies Registry Introduces New Company Incorporation Forms and Expanded Directors' Index

The Companies Registry has announced that provisions under the Companies (Amendment) Ordinances 2004 and 2003, relating, respectively, to the **introduction of new incorporation forms and expansion of the index of directors** will commence on 11 July 2008.

#### (i) Introduction of a new incorporation form

The introduction of a new companies form will reduce the form filling required to incorporate a company and streamline the

procedure. New fees will also be prescribed for conducting searches with respect to the incorporation forms. For more details, please refer to the **Companies Registry External Circular No. 1/2008**.

#### (ii) Expansion of the index of directors

The index of directors under the Companies Ordinance, which is available for public inspection on payment of prescribed fees, will be expanded to cover "reserve directors", i.e., persons nominated by a one-member company in a general meeting to act in place of the sole director of the company upon the latter's death. For more details, please refer to the **Companies Registry External Circular No. 2/2008**.

### 12. Revision of Companies Registry Specified Forms

Subsequent to the revision of specified forms in mid-December 2007 (see **TechWatch No. 63**) to include a confirmatory statement in relation to "Non-statutory Guidelines on Directors' Duties", the Companies Registry has received feedback from customers who raised some concerns on the confirmatory statement. In view of the concerns, the confirmatory statement will be replaced with an advisory note in forms AR1, AR2, AR3, D6, N3 and N4 with effect from 11 July 2008.

For more details, please refer to the **Companies Registry External Circular No. 3/2008**.

### 13. United Nations Sanctions

Members may wish to note the updated list of "Relevant persons and entities" specified under the United Nations Sanctions (Iran) Regulation (made under the United Nations Sanctions Ordinance (Cap. 537, "UNSO")) and published in the Government Gazette (**G.N. 3146**). These are individuals and entities subject to travel bans, travel notifications requirements and/or freezing of assets.

Members should also take note of **Legal Notice 111** in the Gazette, containing the United Nations (Iran) (Amendment) Regulation 2008,

recently made under the UNSO, which effected various changes to the main regulation, as described in the Explanatory Note at the foot of the amending regulation.

## International Meetings

### 14. International Accounting Standards Board

The IASB met in London on 19 – 23 May 2008, discussed the following topics:

- Annual improvements process
- IFRS for private entities (small and medium-sized entities, or SMEs)
- First-time adoption of IFRSs
- IAS 33 *Earnings per Share*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- Revenue recognition
- Liabilities
- Fair value measurement
- Update on IFRIC activities
- Emissions trading schemes

Click [here](#) to view the May IASB Update. The IASB next meets on 16 – 20 June 2008.

### 15. International Financial Reporting Interpretations Committee

The IFRIC met in London on 8 May 2008, discussed the following topics:

- IFRIC D21 *Real Estate Sales*
- IFRIC D22 *Hedges of a Net Investment in a Foreign Operation*
- IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions – Group cash-settled share-based payment transactions*

- Rate regulated liabilities
- IFRIC agenda decisions
- Tentative agenda decisions
- IFRIC work in progress

Click [here](#) to view the May 2008 IFRIC Update. The IFRIC next meets on 10 – 11 July 2008.

### 16. International Auditing and Assurance Standards Board

The IAASB will meet in Athens, Greece, from 16 – 20 June 2008. Click [here](#) for registration and the background papers.

### 17. International Ethics Standards Board for Accountants

The IESBA will meet in Brussels, Belgium from 24 – 25 June 2008. Click [here](#) for registration and the background papers and the forthcoming summary of the conference call held on 16 May 2008.

## Comment Due Dates

**4 August 2008: IASB Discussion Paper** on *Financial Instruments with Characteristics of Equity*

**15 August 2008: IASB Discussion Paper** on *Reducing Complexity in Reporting Financial Instruments*

**25 August 2008: IASB Discussion Paper** on *Preliminary Views on Amendments to IAS 19 Employee Benefits*

**30 September 2008: HKICPA Discussion Paper** on Financial Reporting by Private Companies

**30 September 2008: HKICPA Exposure Draft** on Proposed Amendments to SME-FRF and Proposed Sections of SME-FRS

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