



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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Spotlight

1. Financial Reporting Forum 2008 – 15 October 2008

The Institute will hold a **Financial Reporting Forum** – Stay tuned for the developments of Hong Kong Financial Reporting Standards (“HKFRS”) / International Financial Reporting Standards (“IFRS”) / China Accounting Standards for Business Enterprises (“ASBE”) on 15 October 2008. Highly regarded experts will share their views on implementation of HKFRS/ IFRS and ASBE from the perspectives of standard-setters, preparers and auditors.

To secure your seats, please register early by completing the **registration form** and returning it to the Institute.

Financial Reporting

2. Invitation to Comment on IASB Draft Pronouncements

(i) ED of *Proposed Improvements to IFRSs* (Second Set)

The Institute has issued an **Invitation to Comment** on the above IASB ED, with comments requested by **17 October 2008**.

The ED proposes amendments to eight IFRSs under its annual improvements project. This is the second set of proposals under the IASB’s annual improvements process, which is intended to deal with non-urgent but necessary amendments to Standards. The proposed amendments focus on areas of inconsistency in standards or where clarification of wording is required.

A summary of each of the amendments proposed in the ED is set out in the Appendix to the Invitation to Comment.

(ii) ED of *Proposed Amendments to IAS 33 – Simplifying Earnings per Share*

The Institute has issued an **Invitation to Comment** on the above IASB ED, with

comments requested by **10 November 2008**.

The IASB and the US Financial Accounting Standards Board (“FASB”) are working on a joint project to converge the guidance on earnings per share (“EPS”). The proposed amendments will simplify the calculations of EPS and increase transparency for users of financial statements. In particular, the proposed amendments aim to:

- providing a clear principle to determine which shares and other instruments should be included in the EPS calculation;
- clarifying the EPS calculation for particular instruments, such as contracts to sell or repurchase an entity’s own shares and participating instruments; and
- simplifying the EPS calculation for instruments that are accounted for at fair value through profit or loss.

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

3. Institute Comments on IASB Exposure Draft and Discussion Papers

(i) ED of *An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*

The above ED proposes that the objective of financial reporting is to provide financial information that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. Financial reports should communicate information about an entity’s economic resources, claims on those resources, and the transactions and other events and circumstances that change them. It also

presents an improved description of “faithful representation”, one of the fundamental qualitative characteristics that financial information should possess if it is to provide a useful basis for economic decisions.

The Institute’s **submission** generally supports the IASB’s view on the objective of general purpose financial reporting and qualitative characteristics of decision-useful financial reporting information. However, it expresses some concerns regarding the authoritative status of the conceptual framework as well as the lack of priority that this project is being given to other projects on the IASB’s active agenda. A complete and comprehensive conceptual framework is the cornerstone of any consistent and coherent principles-based accounting regime, and should be staffed and prioritised to reflect that importance. In addition, it regards “understandability” to be a very essential characteristic and should be elevated from an enhancing qualitative characteristic to a fundamental qualitative characteristic.

(ii) Discussion Paper on *Financial Instruments with Characteristics of Equity*

The above discussion paper is the first stage of the IASB’s project to improve the equity versus liability classification in IAS 32 *Financial Instruments: Presentation*. It comprises a FASB Preliminary Views document *Financial Instruments with Characteristics of Equity* issued in November 2007, which describes three approaches to distinguish equity instruments and non-equity instruments, namely, basic ownership, ownership-settlement, and reassessed expected outcomes. The IASB has yet to decide whether the three approaches are a suitable starting point for its project.

The Institute’s **submission** does not support the three approaches set out in the FASB Preliminary Views document. Although the Institute recognises that there are shortcomings in the existing IAS 32, it is

of the opinion that the standard is operational in the majority of circumstances and is well understood by users and preparers. It recommends the IASB to work on improving the existing standard, rather than considering a fundamentally new approach to the classification of financial liabilities and equity instruments.

(iii) Discussion Paper on *Reducing Complexity in Reporting Financial Instruments*

The above discussion paper argues that the existing accounting requirements for financial instruments are too complex and they need to be simplified. It identifies two areas, namely, measurement and hedge accounting, as areas that seem to be significant causes of the complexity, and suggests that one of the approaches to simplify the requirements is to reduce the number of categories of financial instruments and ways of measuring financial instruments. From that, it concludes that the long-term objective should be to measure all financial instruments in fair value.

The Institute’s **submission** agrees that some complexities in the current requirements are unnecessary and could be simplified. While it acknowledges that the mixed measurement attributes and hedge accounting requirements are two sources of complexity in the current IAS 39, it does not believe that the only appropriate solution is to impose a single measurement attribute such that all financial instruments should be measured under fair value and to remove hedge accounting altogether. It would support some simplification of the requirements of IAS 39 as an evolutionary development in that standard.

4. FRSC Meeting Summary – 8 July 2008

This **FRSC meeting summary** covers:

- IASB Standards Advisory Council – progress report

- Proposed Amendments to HKFRS 1 and HKAS 27 – *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Proposed Amendments to HKFRSs arising from IASB Annual Improvements Project
- Proposed HK(IFRIC) Interpretation 15 *Agreements for the Construction of Real Estate*
- Proposed HK(IFRIC) Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*
- Invitation to Comment on IASB ED of *An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*
- Invitation to Comment on IASB Discussion Paper on *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity*
- IASB Discussion Paper on *Preliminary Views on Amendments to IAS 19 Employee Benefits*
- Updated comparison between HKFRSs and IFRSs
- Proposed HKFRS/IFRS Forums

Audit & Assurance

5. AASC Meeting Summary – 23 September 2008

This [AASC meeting summary](#) covers:

- Adoption of New IAASB Pronouncements
- Endorsement of revised and redrafted HKSAs
- Proposed Circular on Capital Investment Entrant Scheme

- Progress report on HKSIR Project

Ethics

6. Institute Comments on IFAC IESBA Re-Exposure Draft on Internal Audit Services and Relative Size of Fees

The Institute's [submission](#) to the International Ethics Standards Board for Accountants ("IESBA") on the re-exposure draft of section 290 of the Code of Ethics on Independence – Audit and Review Engagements relating to Internal Audit Services and Relative Size of Fees indicates that it is supportive of the current work of the IESBA, which seeks to consider what revisions to auditor independence requirements might be needed given the changing environment in the past few years. It also recommends further guidance on certain terms for better clarity.

Legislation & Other Initiatives

7. Companies Registry's Sample Form

The Companies Registry has prepared a [sample completed Form D2A](#) – Notification of change of secretary and director (Appointment/Cessation) to assist companies and document presentors to complete the form.

International Meetings

8. International Accounting Standards Board

The IASB met in London on 15 – 19 September 2008, discussed the following topics:

- Credit Crisis
- Annual Improvements
- Extractive activities
- Fair value measurement
- Financial instruments with characteristics of equity
- First-time Adoption of IFRSs

- IFRS for private entities (formerly small and medium-sized entities, or SMEs)
- Insurance contracts
- Related Party Disclosures
- Revenue recognition
- Share-based Payment
- Update on IFRIC activities

Click [here](#) to view the September IASB Update. The IASB next meets on 2 October 2008.

9. International Financial Reporting Interpretations Committee

The IFRIC met in London on 4 – 5 September 2008, discussed the following topics:

- IFRIC D23 *Distributions of Non-cash Assets to Owners*
- IFRIC D24 *Customer Contributions*
- Customer-related intangible assets
- Regulatory assets and liabilities
- IFRIC agenda decisions
- Tentative agenda decisions
- IFRIC work in progress

Click [here](#) to view the September IFRIC Update. The IFRIC next meets on 6 – 7 November 2008.

10. International Auditing and Assurance Standards Board

The IAASB met in Miami, United States on 15 – 19 September 2008. Click [here](#) for the background papers, meeting summary and audio recording for the Miami meeting. The IAASB will next meet in Brussels, Belgium, from 8 – 11 December 2008. Click [here](#) for registration.

11. International Ethics Standards Board for Accountants

The IESBA will meet in London, United Kingdom from 10 – 12 December 2008. Click [here](#) for the background papers and meeting summary of the June 2008 meeting held in Belgium.

New Publications

12. New Books in the Library

New books of high reference value for members are now available in the library. Please click [here](#) to view a full list of reference books.

13. Other Publications

- The [2008 update](#) of the memorandum of understanding between IASB and FASB sets the goal of completing their major joint projects by 2011.
- In response to the credit crisis, IASB issues a [draft report](#) on measurement and disclosure of fair value when markets are no longer active.
- Deloitte has published the following:
 - a [guide](#) comparing IFRS and US GAAP
 - a [report](#) identifying top ten issues of converting to IFRS in the insurance industry
- KPMG has published the following financial reporting updates:
 - [HKFRS 3](#) *Business combinations* and related amendments to [HKAS 27](#) *Consolidated and separate financial statements*
 - Amendments to [HKAS 32 and HKAS 1](#): *Puttable financial instruments and obligations arising on liquidation*
 - [HK\(IFRIC\) 15](#) *Agreements for the construction of real estate*

- PwC has published the following:
 - A practical **guide** to segment reporting, which provides an overview of the key requirements of IFRS 8 *Operating Segment* and some points to consider as entities prepare for the application of this standard for the first time
 - **Q&A** on HKAS 23 (revised) *Borrowing Costs*

Comment Due Dates

17 October 2008: IASB Exposure Draft of *Proposed Improvements to IFRSs (Second Set)*

10 November 2008: IASB Exposure Draft of *Proposed Amendments to IAS 33 – Simplifying Earnings per Share*

Please send comments to
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