



TechWatch News at a glance

Issue 76 • January 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 >. Click [here](#) for past issues.

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Spotlight

1. Financial Reporting Forum 2008 - A Comprehensive Review of Off Balance Sheet Risk – 26 February 2009

The Institute will hold a Financial Reporting Forum on IASB Exposure Draft (“ED”) 10 *Consolidated Financial Statements* on 26 February 2009 for standard setters, preparers, auditors, CEOs, CFOs, professional accountants and others interested in financial reporting.

The forum will outline how the IASB proposes to undertake a comprehensive review of off balance sheet risk.

More details on the ED are set out in the “Financial Reporting” section below. To secure seats, register early by completing the [registration form](#).

2. Seminar on Audit of Licensed Corporation

The joint HKICPA/SFC seminar on audit of licensed corporation was successfully held on 20 January 2009. Click [here](#) to view the presentation slides on the following topics:

- Auditors’ role in intermediaries supervision
- Regulatory breaches & control deficiencies among broking industry
- Audit of licensed corporations
- Securities margin financing (Key regulatory requirements and review of policies and practices)

3. Upcoming PAIB Forum – 16 February 2009

The first PAIB forum in 2009 provided practical advice to PAIBs in small and medium enterprises (“SMEs”) on credit control issues and bank and government SME loan schemes. It took place on 10 January 2009 and generated a good deal of interest.

The next event, scheduled for 16 February 2009, will focus on investor relations for listed companies. This joint PAIB/Corporate Finance Interest Group event will look at how to maintain effective investor relations, particularly during challenging times. Register early by completing the [registration form](#).

Financial Reporting

4. Invitation to Comment on IASB Draft Pronouncements

- (a) IASB ED of *Proposed Amendments to IAS 24 – Relationships with the State*

The Institute has issued an [Invitation to Comment](#) on IASB ED of *Proposed Amendments to IAS 24 – Relationships with the State*, with comments requested by 20 February 2009.

The ED sets out a revised proposal for disclosure exemption for state controlled entities and further amendment to the definition of a related party after considering responses to the IASB’s ED *State-controlled Entities and the Definition of a Related Party* published in 2007.

IAS 24 *Related Party Disclosures* requires disclosures about related parties and transactions with such parties. This project is not intended to fundamentally reconsider IAS 24 and has a limited scope as follows:

- Providing an exemption from disclosure requirements for transactions between entities controlled, jointly controlled or significantly influenced by the same state
- Amending the definitions of a related party and of a related party transaction to clarify the intended meaning and remove some inconsistencies

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

(b) IASB ED 10 *Consolidated Financial Statements*

The Institute has issued an **Invitation to Comment** on IASB ED 10 *Consolidated Financial Statements*, with comments requested by 27 February 2009.

The ED forms part of the IASB's comprehensive review of off balance sheet activities. It responds to the concerns cited by the G20 leaders at their 15 November meeting and recommendations contained in a report published in April 2008 by the Financial Stability Forum (the international body tasked with co-ordinating the global regulatory response to the credit crisis).

It aims to strengthen and improve the requirements for identifying which entities a company controls with the objective of publishing a single standard to replace the consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*.

The IASB seeks comment on:

- Whether the control definition proposed in this ED and the accompanying guidance on how to apply that definition, provides clearer guidance for determining when one entity controls another
- Whether the enhanced disclosure requirements for consolidated and unconsolidated entities will give capital providers and other users of financial statements information that is useful for their decision-making
- Other matters such as whether reputation risk is an appropriate basis for consolidation and should the IASB consider the definition of significant influence and the use of the equity

method in IAS 28 *Investments in Associates* with a view to develop a cohesive set of requirements for all investments in entities

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

(c) IASCF Discussion Document of *Review of the Constitution: Identifying Issues for Part 2 of the Review*

The Institute has issued an **Invitation to Comment** on IASCF Discussion Document of *Review of the Constitution: Identifying Issues for Part 2 of the Review*, with comments requested by 13 March 2009.

The purpose of the Discussion Document is to seek comment on the full range of constitutional issues that were not addressed in the first part of the review (published in July 2008), such as the possible need for emergency due process procedures, funding arrangements and agenda-setting procedures of the IASB.

The Trustees of the IASCF ("Trustees") plan to conclude the second part of the review in October 2009, with any amendments to the constitution taking effect on or after 1 January 2010. In the Discussion Document, the Trustees have invited comments on specific items relating to the:

- Objectives and governance of the IASCF
- Trustees of the IASCF
- IASB
- Standards Advisory Council

A summary of the items for comments is set out in the Appendix to the Invitation to Comment.

- (d) IASB Discussion Paper on *Preliminary Views on Revenue Recognition in Contracts with Customers*

The Institute has issued an **Invitation to Comment** on IASB Discussion Paper on *Preliminary Views on Revenue Recognition in Contracts with Customers*, with comments requested by 22 May 2009.

The objective of the IASB and the US Financial Accounting Standards Board (collectively the Boards) in the Discussion Paper is to improve the existing guidance in both IFRS and US GAAP by developing a single revenue model that can be applied consistently across industry.

Applying the principle proposed by the Boards, a company would recognise revenue when it satisfies a performance obligation by transferring goods and services to a customer as contractually agreed.

The principle is similar to many existing requirements and the Boards expect that many transactions would remain unaffected by the proposals.

Clarifying the principle and applying it consistently to all contracts with customers would improve the comparability and understandability of revenue for users of financial statements.

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

5. Institute Comments on IASB Exposure Drafts

- (a) IASB ED of Proposed Amendments to IFRS 7 Investments in Debt Instruments

The ED of Proposed Amendments to IFRS 7 — Investments in Debt Instruments forms part of the IASB's response to the global financial crisis.

It proposes additional disclosure requirements for all investments in debt instruments other than those classified as at fair value through profit or loss. The proposals require:

- Information in tabular format about the effect on pre-tax profit or loss as if these instruments were accounted for (i) at fair value and (ii) at amortised cost
- A summary of the different measurement bases of these instruments in tabular format that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost

The **Institute's submission** does not support the ED for the following reasons:

- The ED does not address the requests made at the roundtable discussions on the credit crisis for a review of the approach to determine and measure impairment losses on available-for-sale (AFS) debt instruments
- The value of the proposed disclosure requirements to users would not justify the considerable cost to prepare the information

In the meantime, the Institute recommends that the amendment to the Standard should be limited to requiring the disclosure of the credit-loss component of any impairment loss recognised for AFS debt instruments, in order to provide information to users, which is relevant to the concerns expressed at the round tables.

In the longer term, the IASB should add the revision of the recognition and measurement of impairment of AFS debt instruments to its agenda as a separate project.

- (b) IASB ED of Proposed Amendments to IFRIC 9 and IAS 39 – *Embedded Derivatives*

The ED of Proposed Amendments to IFRIC 9 and IAS 39 – *Embedded Derivatives* seeks to clarify the application of the amendment to embedded derivatives and would require:

- An entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category
- The assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract
- The entire hybrid financial instrument must remain in the fair value through profit or loss category, if the fair value of an embedded derivative that would have to be separated cannot be reliably measured

The **Institute's submission:**

- Supports the IASB's proposal to clarify the uncertainty surrounding the interaction between the October 2008 amendments to IAS 39 and IFRIC 9 on the assessment of embedded derivatives
- Believes that the proposals will provide the needed clarification of IASB's initial intention, resulting in more consistent application when accounting for embedded derivatives (in the case of reclassification of a financial asset out of the fair value through profit or loss category)

Whilst the Institute generally does not support retroactive application dates, it agrees that an accelerated implementation of these amendments is

appropriate, for the reasons set out by the IASB at BC9.

6. HKFRSs Update

The **comparison table** between HKFRSs and IFRSs has been updated up to 1 January 2009.

The Institute has also issued a **list** of new and amended standards and interpretations that are:

- Applicable to December 2008 year-end
- Applicable to December 2009 year-end
- Effective subsequent to December 2009 year-end

Members are to take note that a large number of these new and amended standards are effective from 1 January 2009.

7. FRSC Meeting Summary – 2 December 2008

This **FRSC meeting summary** covers:

- IASB Standards Advisory Council – progress report
- Draft submission on IASB ED of Proposed Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- Proposed amendments to HKFRSs
- Companies Registry request for accounting guidance

Corporate Finance

8. SFC Review Report on Lehman Brothers-Related Issues

Following the collapse of Lehman Brothers in September 2008, the Securities and Futures Commission (SFC) submitted a **report** to the Financial Secretary (FS) on 31 December 2008, which:

- Identifies specific regulatory issues relevant to the sale of financial products in Hong Kong, including the Lehman minibonds and other structured products
- Recommends changes for the FS to take into consideration when assessing the current regulatory environment

Professional Accountants in Business

9. Global Leadership Survey on the Accountancy Profession

Chief executives and presidents of 110 accountancy organisations responded to the IFAC survey on the current credit crisis and other professional issues. Respondents see the most important issues for the accountancy profession in the coming year as being:

- Addressing the needs of SMEs and small and medium practices (SMPs)
- Meeting expectations to identify and prevent fraud
- Dealing with the changing regulatory landscape
- Transitioning to International Standards on Auditing

Click [here](#) for the summary of results of the survey.

10. Global Enterprise Survey Report

The ICAEW's Global Enterprise Survey [report](#) this year included responses from chartered accountants in this region (combination of Hong Kong, Singapore and Malaysia), Europe, and the US, in addition to the UK, on the impact of the credit crunch, business growth plans, globalisation, and the regulatory environment.

Legislation & Other Initiatives

11. Conclusions on Third Consultation on Companies Ordinance Rewrite

On 2 February 2009, the government released [consultation conclusions](#) on the Companies

Ordinance ("CO") Rewrite third consultation, which was conducted in mid-2008 and covered proposals on share capital, the capital maintenance regime and statutory amalgamation procedure. The Institute's submission on the consultation paper was reported in [TechWatch No. 73](#).

As a result of the consultation, key recommendations that the government proposes to adopt include:

Share capital

- Hong Kong should change from the current "par value" system for shares to a mandatory no-par value regime. A statutory deeming provision should be introduced to facilitate the migration to no par, and companies should be allowed 24 months to review their arrangements before migration.
- Legislative control over the setting of the issue price of the no-par shares should not be introduced.
- The requirement for authorised capital (i.e., the maximum amount a company is permitted to raise by issuing shares) should be removed, but companies may still choose to specify in their Articles of Association the maximum number of shares that they may issue.

Capital maintenance regime

- The solvency test approach to creditor protection should not be adopted for all forms of distribution.
- Instead of modifying the existing solvency test (basically a cash flow test) by adding a balance sheet test as a second limb, the government will examine whether the existing cash flow test can be further enhanced by, e.g., extending it to cover the ability to pay longer-term debts beyond 12 months.
- Some of the complex capital maintenance rules in the CO (e.g., reduction of capital, purchase by a company of its own shares and the giving of financial assistance by a

company to another party for the acquisition of its own shares) should be streamlined and rationalised.

Statutory amalgamation procedure

- A court-free statutory amalgamation procedure should be introduced for the amalgamation of wholly-owned, intra-group companies.

The Financial Services and the Treasury Bureau has indicated that it aims to consult the public on a draft Companies Bill incorporating all the proposals in the fourth quarter of 2009, before introducing legislation into the Legislative Council in 2010.

12. Rectification of Documents Filed with the Companies Registry

A revised practice for rectifying errors in previously filed documents is explained in the [Companies Registry External Circular No. 1/2009](#).

13. Companies Registry Annual Statistics

The Companies Registry annual statistics show a slight decrease in the number of new local companies registering in 2008, but an increase in the number of non-Hong Kong companies registering under Part XI of the Companies Ordinance. See the [press release](#) for more details.

14. Companies Registry's Sample Forms

The following sample forms are available to assist companies with form completion:

- [N3: Annual Return of a non-Hong Kong company](#)
- [N4: Annual Return of a non-Hong Kong company - Certificate of no change](#)

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

Members may wish to note that the following updated anti-money laundering and anti-terrorist

financing (AML) notices have been published in the government gazette or other publications:

- [Government notice 8567 of 2008](#): Persons and entities under the United Nations (UN) Sanctions (Côte d'Ivoire) (No.2) Regulation 2008, which was made under the UN Sanctions Ordinance (Cap. 537) and published as [legal notice 276 of 2008](#) in the gazette
- [Government notice 142 of 2009](#): Terrorists and terrorist associates specified under the UN (Anti-Terrorism Measures) Ordinance
- [US Executive Order 13224](#): Adds names of individuals and entities to the list relating to "Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit or Support Terrorism"

For more background information on the current AML law and requirements in Hong Kong, see the Institute's [Legal Bulletin 1](#), "Requirements on Anti-money laundering, Anti-terrorist financing and Related Matters".

International Meetings

16. International Accounting Standards Board

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

- Global financial crisis
- Annual improvements
- Conceptual framework
- Financial instruments with characteristics of equity
- IFRIC
- IFRS for non-publicly accountable entities
- Income tax
- Leases
- Post-employment benefits

- Technical plan

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

17. International Financial Reporting Interpretations Committee

The meeting of the IFRIC scheduled for January 2009 has been cancelled. Click [here](#) to view the announcement.

The IFRIC next meets in March 2009.

18. International Auditing and Assurance Standards Board

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

19. International Ethics Standards Board for Accountants

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

New Publications

20. New Books in the Library

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

21. Other Publications

The following are publications on various topics:

- (i) Distributions of non-cash assets to owners:
 - **Staff summary** by the Institute
- (ii) Year-end statements preparation:
 - **IAS plus update** by Deloitte
 - **A practical guide to new IFRSs for 2009** by PricewaterhouseCoopers

- **HKFRS news** by PricewaterhouseCoopers

- (iii) Reclassification of financial assets:

- **Statement** by Committee of European Securities Regulators

- (iv) Taxability of financial instruments:

- **Tax alert** by Ernst & Young

Financial Crisis Database

22. Financial Crisis Resources

- (i) A Plus

- January 2009: **Going concern: Don't take it for granted – Ben Higgin gives advice on how to deal with issues arising from preparing financial statements on a going concern basis**

- (ii) Other publications:

- **Turbulent times 2nd edition – Key accounting considerations in today's volatile markets** by Deloitte
- **HKFRS news to discuss impact of the current financial crisis on impairment testing** by PricewaterhouseCoopers
- **Staff audit practice alert on audit considerations in respect of going concern in the current economic environment** by IAASB

Comment Due Dates

20 February 2009: IASB ED of *Proposed Amendments to IAS 24 – Relationships with the State*

27 February 2009: IASB ED 10 *Consolidated Financial Statements*



13 March 2009:

- IASB Discussion Paper on *Financial Statement Presentation*
- IASCF Discussion Document of *Review of the Constitution: Identifying Issues for Part 2 of the Review*

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

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