

Professional *and* Technical *News at a glance*



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This is the Fifth Issue of TechWatch, a publication designed to alert members to topics and issues that impact on accountants and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Ms. Winnie Cheung, Senior Director, Professional & Technical Development, Hong Kong Society of Accountants (email:<commentletters@hksa.org.hk>).

This issue (and all back issues) is available online at the Society's website <<http://www.hksa.org.hk/professional/>> under "TechWatch (Members only)".

If you would prefer to receive future issues electronically via email or in hard copy format, you may register or alter your option online at the Members Only section of HKSA web page under "Personal Profile - Publications Preferences". If you have any questions, please contact Karen Moy, Administrative Officer, Professional & Technical Department at <karen_moy@hksa.org.hk> or tel: 2287 7089.

Headlines Of This Issue

Accounting & Financial Reporting

- Financial Accounting Standards Committee - April 2002 Meeting

Audit & Assurance

- Auditing Standards Committee Renamed Auditing And Assurance Standards Committee
- Due Process Of Auditing And Assurance Standards - setting
- Annual Auditing Update Seminar -25 May 2002
- SFC Discussion Forum For Auditors Of Securities Dealers
- PN On Summary Financial Report

Corporate Restructuring & Insolvency

- Contracting Out Of Cases By The ORO
- Bankruptcy - Number Of Individual Voluntary Arrangements Increases

Legislation & Government Initiatives

- HKSA Submits Views On Review Of The Electronic Transactions Ordinance

Listing & Securities Matters

- HKSA's Submission On Listing Rules Consultation

Appendices

- Auditing And Assurance Standards Committee - Due Process To Adopt International Standards On Auditing
- Auditing And Assurance Standards Committee - Due Process For The Development Of Local Practice Notes/Guidance

Accounting & Financial Reporting

Financial Accounting Standards Committee - April 2002 meeting

The Society's Financial Accounting Standards Committee (FASC) met on 17 April 2002.

As part of the Society's due process for setting accounting standards and the policy to converge Hong Kong Statements of Standard Accounting Practice (SSAP) with the standards issued by the International Accounting Standards Board (IASB), the FASC also considered progress made by the IASB at its meeting on 19 - 22 March 2002.

Income Taxes

The Committee received 9 comment letters on the exposure draft of a proposed SSAP "Income taxes".

The Committee identified and considered the following two fundamental issues arising from the comments received:

- The inclusion in the proposed SSAP of guidance notes; and
- The quality of those guidance notes.

In issuing the exposure draft for comment in late 2001, the Committee was mindful that the wording of IAS 12 detracted from its understandability. Guidance was included into

TECHWATCH

the boxes within the body of the exposure draft solely to provide greater clarity on the requirements proposed. No difference in the application of IAS 12 was proposed in the exposure draft. Given the policy of convergence and the comments received on the guidance notes, the Committee considered whether the additional guidance should be included within the body of the proposed SSAP or as an appendix. The Committee agreed to retain the additional guidance within the body of the proposed SSAP on this occasion, as it believes that this would make the proposed SSAP more comprehensible.

In dealing with the second issue, the Committee agreed to refer the comment letters received on the exposure draft to the sub-committee that was tasked with the drafting of the proposed SSAP for further consideration and for the addition of further guidance.

Business Combinations

The Committee agreed that the secretariat would prepare a paper for the Committee's consideration at the next meeting, tracking the IASB's progress to date and identifying the key issues, which include:

- The proposed non-amortisation of goodwill that has an indefinite life and the application of an impairment model;
- The transition in Hong Kong between SSAP 30 and a SSAP based on the IASB's impending revision of IAS 22.

In the first of two phases, the IASB's project seeks the convergence of existing standards on: the definition of a business combination; the appropriate method(s) of accounting for a business combination; the accounting for goodwill (and negative goodwill) and intangible assets acquired in a business combination; the treatment of liabilities for terminating or reducing the activities of an acquiree; the initial measurement of the identifiable net assets acquired in a business combination; and the date on which equity instruments issued as consideration should be measured.

The Committee noted that SSAP 30 came into effect in Hong Kong recently. Although changes to the treatment of goodwill are presently being considered, consistent with the Foreword to

Statements of Standard Accounting Practice, Interpretations and Accounting Guidelines, the requirements under SSAP 30 will continue to apply in Hong Kong in its present form until a revised SSAP becomes effective.

First-time Application Of International Financial Reporting Standards (IFRS)

The Committee noted that a Hong Kong SSAP based on the proposed IFRS would be of particular relevance to entities based in China that might in future prepare financial statements in accordance with Hong Kong SSAPs and agreed to request comments for submission to the IASB once the IASB's ED is issued, which is expected to be before the end of June.

Share-Based Payments

The Committee briefly considered progress made to date by the IASB and noted that one component of the option pricing model tentatively agreed on by the IASB is the expected volatility in prices. The Committee expressed its concern on whether appropriate and reliable information on volatility would be available in Hong Kong (and other jurisdictions).

Insurance Contracts

The FASC noted the latest IASB project timetable indicates that an exposure draft is due to be issued in the 4th quarter of 2002. The FASC agreed to refer the IASB's progress to date and the Draft Statement of Principles prepared by the former IASC Insurance Steering Committee to the Society's Expert Panel on Insurance for detailed analysis and comment and request the Expert Panel to report back to the FASC.

Convergence Of Hong Kong SSAPs With IASB Standards

The Committee briefly discussed the convergence of Hong Kong's accounting standards with the IASB's Standards, in particular the differences at present between the respective standards on leases and investment properties. The Committee noted that the IASB had signalled its intention to address the issue as part of its impending improvements proposed to IAS 17 and agreed to consider the matter further once the IASB had published its proposals.

Date Of Next Meeting

The Committee's next meeting will be held on 15 May 2002.

This meeting summary is provided for the information and convenience of those who wish to follow the FASC's deliberations. All conclusions reported are tentative and may be changed at future meetings.

The IASB publishes summaries of its meetings and these can be found on the IASB's website at <<http://www.iasb.org.uk>>.

The FASC welcomes comments on its technical agenda. Please e-mail us at <commentletters@hkasa.org.hk>.

Audit & Assurance

Auditing Standards Committee Renamed Auditing And Assurance Standards Committee

The HKSA's technical committee responsible for setting auditing and assurance Standards and Practice Notes has been renamed Auditing and Assurance Standards Committee. The new name better reflects the expanded scope of work of the committee.

Due Process Of Auditing And Assurance Standards-setting

Council has approved the new due process operated by the HKSA's Auditing and Assurance Standards Committee (AASC) in setting Hong Kong's auditing and assurance Standards and Practice Notes.

The new due process is set out in the appendices.

One of the salient features of the new due process is that when an international auditing ED is issued by the International Auditing and Assurance Standards Board of IFAC, the HKSA will consult members and interested parties by issuing the same as an Hong Kong ED. The AASC will consider the international ED concurrently with other parties during the exposure period, and compile a HKSA submission on the international ED by incorporating the AASC's comments together with those of other respondents in Hong Kong.

Consistent with the practices adopted for accounting standards, apart from publishing an ED in electronic form, **paper copies of an ED will now be published, not as part of a Members' Handbook supplement but, instead, will be published in A4 format.** Paper versions of EDs can be folded and hole punched and filed at the back of a Members' Handbook binder, at the discretion of the Handbook subscriber.

Annual Auditing Update Seminar - 25 May 2002

The CPD seminar provides a good opportunity for practising members to learn more about the developments in auditing and assurance Standards and Practice Notes over the last 12 months. To enrol, download the form from the HKSA's website <<http://www.hkasa.org.hk/membership/cpd/index.php>>.

SFC Discussion Forum For Auditors Of Securities Dealers

The HKSA has collaborated with the SFC to provide a Discussion Forum for exchange between auditors of securities dealers and the SFC to assist in the aim to promote a high standard of regulation of the securities market. An information Circular regarding this was issued to all Member Practices on 17 April 2002. The Forum was successfully held on 6 May with over 100 persons attending.

At the Forum, the SFC discussed the statutory reporting requirements and the role of the auditors. Particular focus was given to the importance of circularisation of client accounts as an audit procedure and the statutory requirements imposed on the auditors to report certain matters to the SFC under the Securities Ordinance and the Commodities Trading Ordinance.

PN On Summary Financial Report

Following consideration of comments received on the ED, the HKSA will soon issue the PN providing guidance on the auditors' responsibilities to report on the summary financial report.

The PN will be issued with Members' Handbook Update 3/02 and be available on the HKSA's website <<http://www.hkasa.org.hk/professional/>> (under "Professional Pronouncements" and "Volume III-B").

Corporate Restructuring & Insolvency

Contracting Out Of Cases By The ORO

The Official Receiver's Office (ORO) has released the following information regarding the contracting out of cases which members may find of interest:

Panel A Scheme And Direct Appointments For Compulsory Liquidations

- For the period between 1 April 2001 and 31 March 2002, 11 outside liquidators were appointed under the Administrative Panel of Insolvency Practitioners for Court Winding-up (APIPCW) Contracting out Scheme (Panel A Scheme). In addition, 31 outside liquidators were appointed by creditors during creditors' meetings without invoking the roster system.

Contracting Out Of Summary Liquidation Cases

- 809 cases were contracted out from 27 July 2001 to 31 March 2002 under the Contracting Out Scheme for summary winding up cases under section 194(1A) of the Companies Ordinance and it is estimated that about 1,110 summary winding up cases will be contracted out to the 17 successful firms in the latest tender exercise in this financial year. Under the tender arrangements firms were able to submit tenders for a block of either 20 or 90 cases. The 17 successful firms were selected out of 37 firms that submitted tenders. The list of the firms awarded contracts was published in the Government Gazette as G.N. 2595 on 26 April 2002.

Outsourcing Of Bankruptcy Work

- Up to December 2001, there were 13,186 bankruptcy petitions (double the number in 2000) and 9,151 bankruptcy orders, of which 85% were self-petitions and 15% petitions by creditors. Consideration is being given to the possibility of outsourcing a specific part of the work in self-petitioned bankruptcy cases. Under the present legislation, the direct appointment of outside receivers/trustees by the Official Receiver in bankruptcy cases is not possible. Complete outsourcing of a case would therefore require changes in law.

Bankruptcy - Number of Individual Voluntary Arrangements (IVAs) Increases

According to the ORO, 14 new cases of individual voluntary arrangements were approved in the first quarter of 2002, compared with 12 cases which were approved for the period between 1 April 1998 and 31 December 2001. The statistics indicate that IVAs may be gaining wider acceptance amongst creditors and debtors.

Legislation & Government Initiatives

HKSA Submits Views On Review Of The Electronic Transactions Ordinance

As reported in TechWatch (Issue No.4), the Information Technology and Broadcasting Bureau issued a consultation paper proposing various changes to the Electronic Transactions Ordinance (ETO) to take into account technological developments since its implementation.

The Society has issued a submission on the consultation paper supporting the objects of the proposed review: to update and improve the ETO from experience gained in its operation in the last 18 months, and to keep the legal framework up-to-date for e-business. The submission may be viewed at the HKSA website at <http://www.hksa.org.hk/professional/> under "HKSA Submissions".

Listing & Securities Matters

HKSA's Submission On Listing Rules Consultation

The Hong Kong Exchanges and Clearing Limited (HKEx) is proposing to amend the Listing Rules to enhance the corporate governance of companies listed on the Main Board and GEM.

A substantial consultation paper was issued in January 2002 for comment by 22 April 2002 (subsequently extended to 24 May 2002). The consultation paper contains 169 questions and is divided into three main sections covering: (1) protection of shareholders' rights; (2) directors and board practices; and (3) corporate reporting and disclosure of information.

The Society submitted comments on the consultation paper in May 2002. The submission includes comments on all the three sections.

The key proposal in respect of corporate reporting concerns the introduction of quarterly reporting. HKEx favours a timetable that requires companies to report within 45 days of the end of the quarter. The consultation paper also proposes shortening the existing timetable for interim and annual reporting from 3 to 2 months and 4 to 3 months of the period end respectively.

While the Society's submission gives support to the introduction of a mandatory requirement for quarterly reporting, for practical reasons we favour a 2-month reporting deadline initially and suggest that the shortening of half-year and annual reporting deadlines should be phased in gradually after the introduction of quarterly reporting. The Society's submission also supports an overall reporting framework of quarterly

reporting for the first and third quarters, while retaining the existing half-year report for the first 6 months and annual report at the year end – as opposed to e.g. three quarterly reports and an annual report, which is the reporting requirement in the United States.

Our submission addresses a number of other corporate governance issues covered in the consultation paper, including the minimum number of independent non-executive directors on the board, the establishment of remuneration and nomination committees under the board, disclosures in annual reports and protection of minority shareholders.

The Society's submission may be viewed from the end of May 2002 at the HKSA website at <<http://www.hksa.org.hk/professional/>> under "HKSA Submissions" and the consultation document can be accessed at the HKEx's website at <<http://www.hkex.com.hk>>.

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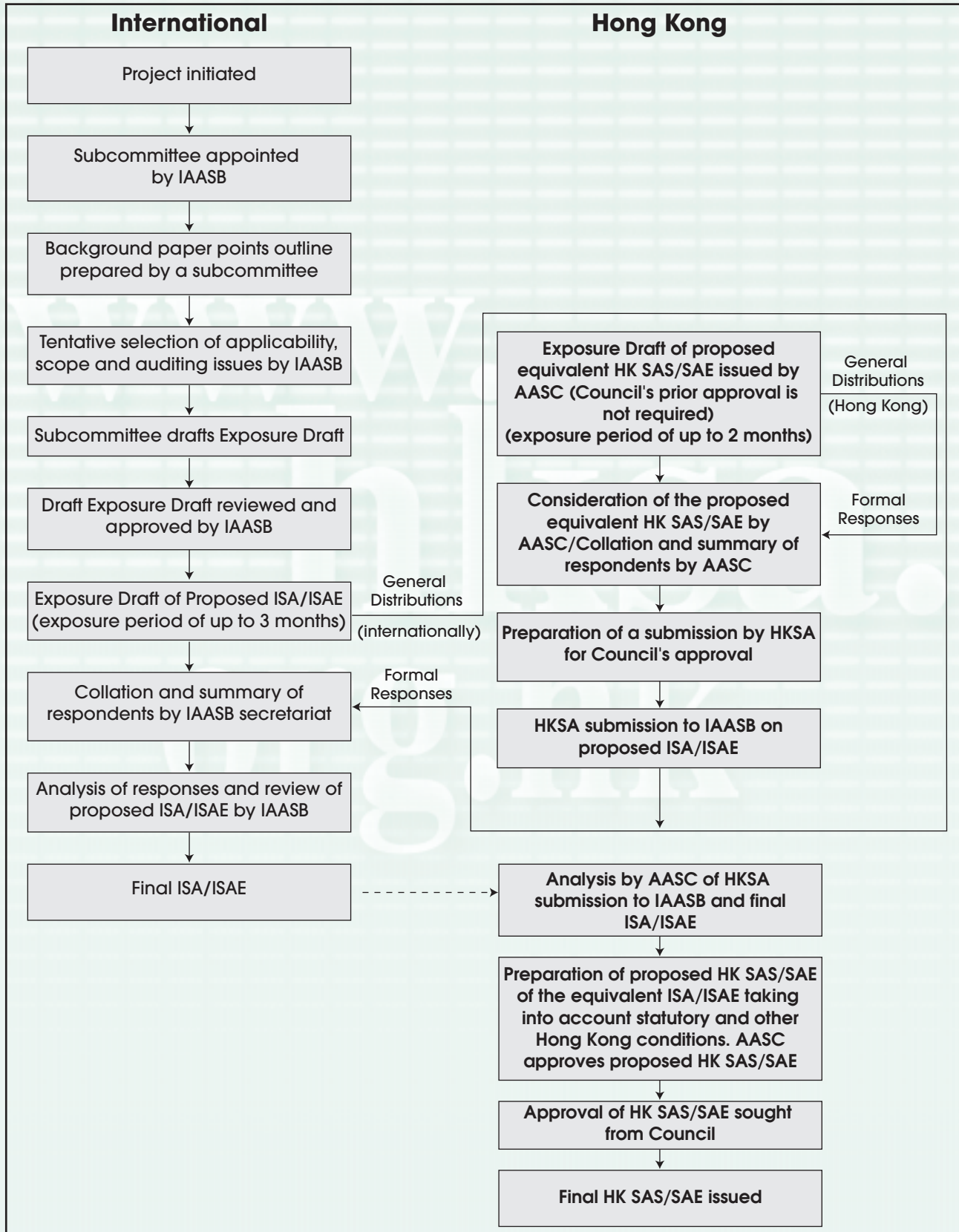
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