



STANDARDS & TECHNICAL

NEWS AT A GLANCE

TechWatch is a publication designed to alert members to topics and issues that impact on CPAs and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Stephen Chan, Director (Standard Setting) [by email](#).

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TechWatch is prepared by the HKICPA Standards & Technical Department and intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the HKICPA 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 HKICPA.

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Members' Handbook

1. Updates No. 10 and 11 Issued

- (a) [Update No. 10](#) was issued in January 2005 enclosing the following:

Professional Accountants Ordinance & By-laws, Professional Ethics & Conduct – Volume I

- Statement 1.400, Practice Review – Explanatory Foreword
- Statement 1.401, Practice Review – Review Procedures and Conduct of Members

As a result of the passage of the Professional Accountants (Amendment) Ordinance 2004 (PAAO), further changes to Statements 1.400 and 1.401 have been made, which include changes in wording to be consistent with the amendments to the Professional Accountants Ordinance made by the PAAO and changes to align the wording to be consistent with the new descriptions given to accounting and auditing standards.

Auditing and Assurance Standards – Volume III

- PN 830, Reports by Auditors Under the Banking Ordinance

Further details on the new PN are set out in [TechWatch No. 30](#).

- (b) [Update No. 11](#) was issued in February 2005 enclosing the following:

Financial Reporting Standards – Volume II

- HKFRS 6 *Exploration for and Evaluation of Mineral Resources*
- HKFRS-Int 2 *Members' Shares in Co-operative Entities and Similar Instruments*
- HKFRS-Int 3 *Emission Rights*
- HKFRS-Int 4 *Determining whether an Arrangement contains a Lease*
- HKFRS-Int 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- Amendment to HKAS 19 *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*
- Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities*
- Amendment to HKAS-Int 12 *Scope of HKAS-Int 12 Consolidation – Special Purpose Entities*

Auditing and Assurance Standards – Volume III

- Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services

Further details on the above new and revised Statements are set out in the “Financial Reporting” and “Audit & Assurance” sections below.

Circular to Members/Member Practices

2. Disclosure Of The Impact Of Adopting New HKFRSs

The HKICPA has issued guidance to members and member practices in a [Circular dated 26 January 2005](#), encouraging preparers of financial statements to disclose the impact of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (new HKFRSs) effective for accounting periods beginning on or after 1 January 2005.

The HKICPA Circular provides the recommended wording developed by the Financial Reporting Standards Committee and Auditing and Assurance Standards Committee for companies to include in their financial statements so that readers of those statements understand the ramifications of the new HKFRSs.

Financial Reporting

3. HKICPA Issues New Standard And Interpretations And Amendments

The HKICPA has issued under [Update No. 11](#) to the HKICPA Members' Handbook a new Hong Kong Financial Reporting Standard (HKFRS) and a number of new HKFRS Interpretations and Amendments to the existing Hong Kong Accounting Standards (HKAS) and HKAS Interpretation ("New Standard and Interpretations and Amendments"), adopting their equivalents issued by the IASB. A summary of the New Standard and Interpretations and Amendments is set out below.

(a) HKFRS 6 *Exploration for and Evaluation of Mineral Resources*

The objective of HKFRS 6 is to specify the financial reporting for the exploration for and evaluation of mineral resources.

In particular, this HKFRS requires:

- (i) limited improvements to existing accounting practices for exploration and evaluation expenditures.
- (ii) entities that recognise exploration and evaluation assets to assess such assets for impairment in accordance with this HKFRS and measure any impairment in accordance with HKAS 36 *Impairment of Assets*.
- (iii) disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

HKFRS 6 becomes effective for financial statements covering accounting periods that begin on or after 1 January 2006 with earlier application encouraged.

(b) HKFRS Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*

HKFRS Interpretation 2 is to deal with the concerns expressed that the classification of members' shares in co-operative entities under HKAS 32 *Financial Instruments: Disclosure and Presentation* is unclear.

Members' shares in co-operative entities have some characteristics of equity. They also give the holder the right to request redemption for cash or another financial instrument, although that right may be subject to limits on whether the instruments will be redeemed. HKFRS Interpretation 2 gives guidance on how those redemption terms should be evaluated in determining whether the financial instruments should be classified as financial liabilities or equity.

HKFRS Interpretation 2 becomes effective for financial statements covering accounting periods that begin on or after 1 January 2005 with earlier application permitted.

(c) HKFRS Interpretation 3 *Emission Rights*

HKFRS Interpretation 3 specifies the accounting for companies participating in government schemes aimed at reducing greenhouse gas emissions. It requires companies to account for the emission allowances they receive from governments as intangible assets, recorded initially at fair value. It also requires companies, as they produce emissions, to recognise a liability for the obligation to deliver allowances to cover those emissions.

HKFRS Interpretation 3 becomes effective for financial statements covering accounting periods that begin on or after 1 March 2005 with earlier application encouraged.

(d) HKFRS Interpretation 4 *Determining whether an Arrangement contains a Lease*

HKFRS Interpretation 4 gives guidance on determining whether arrangements that do not take the legal form of a lease (e.g. some take-or-pay contracts) should, nonetheless, be accounted for in accordance with HKAS 17 *Leases*. It specifies that an arrangement contains a lease if it depends on the use of a specific asset and conveys a right to control the use of that asset.

HKFRS Interpretation 4 becomes effective for financial statements covering accounting periods that begin on or after 1 January 2006 with earlier application encouraged.

(e) HKFRS Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

HKFRS Interpretation 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning plant (such as nuclear plant) or equipment (such as cars) or in undertaking environmental restoration or rehabilitation (such as rectifying pollution of water or restoring mined land).

HKFRS Interpretation 5 becomes effective for financial statements covering accounting periods that begin on or after 1 January 2006 with earlier application encouraged.

(f) Amendment To HKAS 19 *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*

The HKICPA adopts the IASB's decision to allow the option of recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, in a statement of recognised income and expense. This option is similar to the requirements of the UK Standard, FRS 17 *Retirement Benefits*.

Until now HKAS 19 has required actuarial gains and losses (i.e. unexpected changes in value of the benefit plan) to be recognised in profit or loss, either in the period in which they occur or spread over the service lives of the employees. Many entities choose to spread the gains and losses. Under the amendment, entities that at present spread the gains and losses are not required to change their approach, but are now free to choose to do so. In particular, the amendment allows companies that are already showing the surplus or deficit in full under FRS 17 to continue with their present policy. The amendment also (a) specifies how group entities should account for defined benefit group plans in their separate or individual financial statements and (b) requires additional disclosures.

The amendment to HKAS 19 becomes effective for financial statements covering accounting periods that begin on or after 1 January 2006 with earlier application encouraged.

(g) Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities*

Amendment to HKAS 39 provides transitional relief from retrospective application of the “day 1” gain and loss recognition requirements. It allows, but does not require, entities to adopt an approach to transition that is easier to implement.

The amendment to HKAS 39 becomes effective for financial statements covering accounting periods that begin on or after 1 January 2005.

(h) Amendment To HKAS-Int 12 *Scope of HKAS-Int 12 Consolidation – Special Purpose Entities*

HKAS-Int 12 currently excludes from its scope post-employment benefit plans and equity compensation plans. Post-employment benefit plans are within the scope of HKAS 19 *Employee Benefits*. However, because of the introduction of HKFRS 2 *Share-based Payment*, HKAS 19 does not apply to equity compensation plans.

The amendment removes the scope exclusion in HKAS-Int 12 for equity compensation plans. Hence, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of a share-based payment arrangement will be required to consolidate that trust.

The amendment also amends the scope exclusion in HKAS-Int 12 for post-employment benefit plans to include other long-term employee benefit plans, to ensure consistency with the requirements of HKAS 19. At present, HKAS-Int 12 does not exclude other long-term employee benefit plans from its scope. However, HKAS 19 requires those plans to be accounted for in a manner similar to the accounting for post-employment benefit plans.

The amendment to HKAS-Int 12 becomes effective for financial statements covering accounting periods that begin on or after 1 January 2005 with earlier application permitted if an entity applies HKFRS 2 for an earlier period.

4. HKICPA Invites Comments On Proposed SME Financial Reporting Framework And Financial Reporting Standard

The HKICPA has issued an [Exposure Draft of Proposed Small and Medium-sized Entity Financial Reporting Framework \(SME-FRF\) and Financial Reporting Standard \(SME-FRS\)](#) for consultation until **30 April 2005**.

This Exposure Draft is largely based on the Institute's Consultation Paper on a Proposed Implementation of a SME-FRF and SME-FRS for Hong Kong which was issued in May 2004 for consultation. It also includes two proposed audit reports on the SME-FRS compliant financial statements.

The proposed financial reporting framework for SMEs will be applicable to Hong Kong companies that prepare financial statements in accordance with section 141D of the Companies Ordinance and to entities incorporated overseas that do not have public accountability and fall within the size criteria of an SME as defined in the proposed SME-FRF.

5. HKICPA Invites Comments On Draft Interpretation 24 Revenue – Pre-completion Contracts for the Sale of Development Properties

The HKICPA has issued an [Exposure Draft of Draft Interpretation 24 Revenue – Pre-completion Contracts for the Sale of Development Properties](#) for consultation until **8 March 2005**.

Right now, many Hong Kong developers use the "stage of completion" method, whereby they can recognise revenue from pre-completion contracts as the development of the properties progresses. The other commonly used method is to recognise revenue only when the development is complete.

Once the Draft Interpretation is implemented, developers will only be able to recognise revenue when the significant risks and rewards of ownership of the properties have been transferred to buyers, which in most cases would be after the development is complete. The relevant Financial Reporting Standards are SSAP 18 and HKAS 18 *Revenue*. The HKICPA is recommending three possible transitional provisions for adopting the Draft Interpretation, and is asking for comments on these provisions.

6. HKICPA Comments On The IFRIC Draft Interpretations D10 Liabilities Arising From Participating In A Specific Market – Waste Electrical And Electronic Equipment, And D11 Changes In Contributions To Employee Share Purchase Plans

- (a) The International Financial Reporting Interpretations Committee (IFRIC) has released for public comment [Draft Interpretation D10 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment](#), giving guidance on the accounting for liabilities for waste management costs.

D10 clarifies when certain producers of electrical goods will need to recognise a liability for the cost of waste management relating to the decommissioning of waste electrical and electronic equipment (historical waste) supplied to private households. The IFRIC concluded that the event giving rise to the liability for costs of such historical waste, and so its recognition, is participation in the market in a measurement period, i.e. a period in which market shares are determined for the purposes of allocating waste management costs. The IFRIC did not agree that production of the equipment was the triggering event for liability recognition.

Under the HKICPA's due process for setting accounting standards, the Financial Reporting Standards Committee (FRSC) (previously known as Financial Accounting Standards Committee) issued an [Invitation to Comment on the Draft Interpretation](#) and made a [submission](#) to the IFRIC.

- (b) The IFRIC has released for public comment [Draft Interpretation D11 Changes in Contributions to Employee Share Purchase Plans](#)

D11 clarifies how an entity should apply IFRS 2 *Share-based Payment* if an employee ceases to contribute to an employee share purchase plan (ESPP) and, as a consequence, is no longer able to buy shares in the plan. The IFRIC concluded that the entity should account for this event as a cancellation. Therefore, in accordance with paragraph 28(a) of IFRS 2, the entity should recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

D11 also clarifies how an entity should apply IFRS 2 if an employee changes from one ESPP to another. The IFRIC concluded that the entity should account for this event in accordance with paragraph 28(c) of IFRS 2. For example, if the entity identifies the equity instruments granted to the employee under the new ESPP as replacements for the equity instruments granted to that employee under the original ESPP, the entity should account for this event as a modification of the original grant of equity instruments.

Under the HKICPA's due process for setting accounting standards, the FRSC issued an [Invitation to Comment on the Draft Interpretation](#) and made a [submission](#) to the IFRIC.

Following from the IASB's final approved Interpretations, the FRSC intends to recommend the adoption of two new Hong Kong Interpretations so that the Hong Kong interpretations maintain conformity with the IASB's interpretations. The FRSC does not intend to issue specific Hong Kong draft interpretations on the matters covered in the IFRIC draft interpretations.

7. **HKICPA Withdraws AB 4 Deemed Acquisitions And Disposals And Invites Comments On Proposed Guidance On The Accounting Of A Deemed Disposal (To Be Appended To HKAS 27)**

The HKICPA has withdrawn AB 4 *Deemed Acquisitions and Disposals* with effect from 1 January 2005 and released [Exposure Draft — Proposed Guidance on the Accounting of a Deemed Disposal \(to be appended to HKAS 27\)](#) (the "Proposed Guidance") with comments requested by 25 February 2005.

HKFRS 3 *Business Combinations* becomes effective on or after 1 January 2005 and AB 4 currently contains certain guidance that is not consistent with HKFRS 3. Accordingly, the FRSC considers that there is a need to withdraw AB 4 as from the time that HKFRS 3 becomes effective.

The FRSC recommends that AB 4 be replaced with the Proposed Guidance to give guidance on the accounting of a deemed disposal. The Proposed Guidance will eliminate the inconsistency between AB 4 and HKFRS 3 and update the guidance to bring it into line with the treatments specified under HKAS 27 and HKFRS 3. The changes include specifying that:

- a gain or loss on a deemed disposal should be recognised in equity; and
- attributable goodwill that has previously been recognised as a deduction from equity should not be included in the gain or loss on a deemed disposal (i.e. should not be recycled through the income statement).

8. FRSC Meeting Summaries – 9 November 2004 and 12 January 2005

The FASC (now known as FRSC) met on 9 November 2004 and discussed:

- ED/Convergence
- Convergence (reformatting SSAPs into HKASs)
- Accounting Bulletin AB 4
- Property Developers – accounting for revenue under HKAS 11 or HKAS 18

The FRSC met on 12 January 2005 and discussed:

- Guidance developed by the Financial Reporting Interpretations Sub-Committee
- Length of lease term in respect of Hong Kong land leases
- Adoption of new Standards and Interpretations in Hong Kong
- SSAP 27 *Accounting for Group Reconstructions*
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities*
- Revaluation of leasehold property
- Proposed meeting dates for 2005
- Approach to deal with consequential amendments not yet put through in the relevant Standards
- Disclosure of the impact of the adoption of new Standards and Interpretations

FRSC [meeting summaries](#) are available on the HKICPA's website.

Audit & Assurance

9. HKICPA Issues Preface To Hong Kong Standards On Quality Control, Auditing, Assurance And Related Services

The HKICPA has issued the Preface to Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services under [Update No. 11](#) to the HKICPA Members' Handbook. The Preface sets out the objectives and due process of the HKICPA Council in respect of setting Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services, and explains the scope, authority and timing of application of Hong Kong Standards on Quality Control, Auditing, Assurance and Related Services as follows:

- Hong Kong Standards on Auditing (HKSAs) are to be applied in the audit of historical financial information
- Hong Kong Standards on Review Engagements (HKSREs) are to be applied in the review of historical financial information
- Hong Kong Standards on Investment Circular Reporting Engagements (HKSIRs) are to be applied in investment circular reporting engagements
- Hong Kong Standards on Assurance Engagements (HKSAEs) are to be applied in assurance engagements dealing with subject matters other than historical financial information

- Hong Kong Standards on Related Services (HKSRs) are to be applied to compilation engagements, engagements to apply agreed-upon procedures and other related services engagements
- Hong Kong Standards on Quality Control (HKSQCs) are to be applied for all services falling under HKSA, HKSREs, HKSIRs, HKSAEs and HKSRs

Hong Kong Framework for Assurance Engagements is the assurance framework for HKSA, HKSREs, HKSIRs and HKSAEs.

10. **AASC Invites Comments On IAASB EDs Of Revised ISAs On Audit Materiality And Auditing Accounting Estimates**

The International Auditing and Assurance Standards Board (IAASB) has issued for public consultation exposure drafts (EDs) of proposed ISA 320 (Revised) “Materiality in the Identification and Evaluation of Misstatements” and proposed ISA 540 (Revised) “Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)”.

The proposed revised ISA 320 establishes standards and provides guidance on audit materiality and how it is used in the identification and evaluation of misstatements when performing an audit of financial statements. It indicates that the auditor's judgment as to matters that are material to users of the financial statements is based on consideration of the needs of users as a group and not individual users whose needs may vary widely.

The proposed revised ISA 540 establishes standards and provides guidance on auditing accounting estimates and related disclosures. It conforms the approach to auditing accounting estimates to the IAASB's new audit risk and revised fraud standards.

In accordance with the International Standards Convergence Due Process, the AASC has issued an Invitation to Comment to request views of members and interested parties on the IAASB EDs in preparing the HKICPA's submission to the IAASB. The [Invitation to Comment and the IAASB EDs](#) have been posted on the HKICPA's website.

Members and interested parties are requested to submit their comments on the IAASB EDs to the HKICPA by **8 April 2005** so that they can be considered and included in the HKICPA's submission to the IAASB.

Upon finalisation of the IAASB EDs, the AASC intends to adopt them as local standards so that Hong Kong Auditing and Assurance Standards maintain conformity with current International Auditing and Assurance Standards at all times.

11. **AASC Meeting Summary – 23 November 2004**

The AASC met on 23 November 2004 and discussed:

- International Convergence – Progress Report
- PN 830 “Reports by auditors under the Banking Ordinance”
- Proposed guidance on acting as scrutineer at a general meeting of a listed issuer
- Guidance to auditors with regard to preliminary announcements of results for the full year
- ICAEW Audit & Assurance Faculty
- Training for members on the introduction of the new Hong Kong Auditing Standards

AASC [Meeting Summaries](#) are available on the HKICPA's website.

Ethics

12. HKICPA Comments On Exposure Draft Of Revised IFAC Code Of Ethics

In accordance with the HKICPA's International Standards Convergence Due Process, an [Invitation to Comment](#) on the IFAC Exposure Draft (ED) of Proposed Revised Code of Ethics for Professional Accountants was issued in October 2004 and the consultation period ended on 19 November 2004. Following the consultation, the HKICPA made a [submission](#) to the IFAC Ethics Committee setting out comments on the independence section of the IFAC ED.

The IFAC ED proposes the following changes to the independence requirements:

- Changes to conform to the “International Framework for Assurance Engagements” issued by the IAASB; and
- Changes to conform to definitions in International Standard on Quality Control 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements” issued by the IAASB and to require rotation of the person responsible for the engagement quality control review in the audit of a listed entity.

The HKICPA's submission seeks clarifications from the IFAC on a number of terms used in the IFAC ED, and whether the maximum of seven years for the rotation of the engagement partner and the quality control reviewer and the minimum of two years cooling-off period are standards or guidance.

Banking

13. HKMA Issues Circular On Safeguarding Customer Assets And Information

The Hong Kong Monetary Authority (HKMA) recently issued a [circular](#) to all authorized institutions (AIs) suggesting measures that AIs should take in order to minimize their exposure to operational, reputation and security risks over customer assets and information in the light of the recent incident relating to the mistaken destruction of rented safe deposit boxes and observations arising from the HKMA's routine review of the operations of AIs.

The measures cover:

- Controls over operations that involving the handling of customer needs; and
- Customer information security.

Corporate Finance

14. Legislative Proposals To Enhance The Regulation Of Listing

A public consultation paper on proposed amendments to the Securities and Futures Ordinance (SFO) which seek to give statutory backing to major listing requirements was published by the Financial Services and the Treasury Bureau (FSTB) on 7 January 2005. The [Consultation Paper](#) is available on the FSTB's website. The legislative amendments proposed by the FSTB are based on the recommendations outlined in the [Consultation Conclusions on Proposals to Enhance the Regulation of Listing](#) published on 26 March 2004.

Major legislative proposals set out in the FSTB's Consultation Paper are as follows:

- To provide that the Securities and Futures Commission (SFC) may make rules to prescribe listing requirements and ongoing obligations of listed companies under s.36 of the SFO.
- To extend the market misconduct regime in Parts XIII and XIV of the SFO to cover breaches of the statutory listing rules made by the SFC.
- To empower the Market Misconduct Tribunal (MMT) to impose, in addition to existing sanctions such as disqualification orders and disgorgement orders, new civil sanctions, namely public reprimands and civil fines, on the primary targets, i.e. issuers, directors and officers, for breaches of the statutory listing rules made by the SFC.
- To empower the SFC to impose civil sanctions, namely public reprimands, disqualification orders, disgorgement orders and civil fines, on the primary targets for breaches of the statutory listing rules made by the SFC under the amended Part IX of the SFO.

Respondents may submit their comments to the FSTB on or before **7 March 2005**. The HKSAR Government aimed at introducing the relevant Securities and Futures (Amendment) Bill into the Legislative Council within the 2004-05 legislative year.

In parallel, the SFC is consulting on proposed amendments to the Securities and Futures (Stock Market Listing) Rules (SMLR), to be made by the SFC as subsidiary legislation under the amended SFO. Details of the SFC's proposals are set out in a [Consultation Paper](#) on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules, which is available on the SFC's website. The consultation period will end on **31 March 2005**.

The purpose of the proposed amendments to the SMLR is to codify in the statute important requirements in the Listing Rules covering three areas:

- (i) Disclosure of price-sensitive information and specific events.
- (ii) Disclosure/publication of annual and periodic reports, including annual and interim accounts.
- (iii) Disclosure of, and shareholders' approval for, notifiable transactions and connected transactions.

In codifying the more important requirements of the Listing Rules into provisions in the SMLR, the SFC indicates that it has followed four general principles, namely:

- (a) the requirements relate only to disclosure. They do not include Listing Rules dealing with issues of corporate governance;
- (b) there are no substantive changes from the present Listing Rules, other than in a few instances, which are individually analysed and explained;
- (c) there are no pre-vetting or approval requirements. Listed companies which follow the SMLR would not have any extra compliance or administrative burden; and
- (d) the Stock Exchange will remain the frontline regulator and continue to receive applications and other disclosure materials, and administer the processing.

The two sets of proposals stated above, i.e. (i) proposed amendments to the SFO which seek to give statutory backing to major listing requirements, issued by the FSTB, and (ii) proposed amendments to the SMLR, issued by the SFC, are interrelated and form a package of proposed legislative amendments to improve the regulation of listing in Hong Kong.

The HKICPA is considering the consultation documents and will keep members informed of any significant developments on the matter.

15. **Review Of The Disclosure Of Interests Regime Of The Securities And Futures Ordinance**

The SFC published a [Consultation Paper](#) on the Review of the Disclosure of Interests Regime under Part XV of the Securities and Futures Ordinance (SFO) on 20 January 2005, for comment by 28 February 2005. The Consultation Paper is available at the SFC's office and its website.

Part XV of the SFO requires (i) a shareholder who has an interest in 5% or more of the voting shares of a listed corporation (a substantial shareholder); and (ii) a director or a chief executive who is interested in the shares or debentures of a listed corporation (of which he is a director or chief executive) or any of its associated corporations, to give notice of such interests in specified circumstances.

The SFC has been reviewing the disclosure of interests regime by gathering market comments. It has also consulted market participants to determine the effectiveness of Part XV of the SFO in meeting its objectives and on any need to update the regime to keep it in line with market developments. The SFC notes that, generally, commentators welcome the greater transparency brought about by Part XV and consider that its objectives have largely been achieved. Most of the comments received in the course of the SFC's review were technical or practical in nature, involving matters such as filling in or filing the statutory forms, or were related to the interpretation of the law. There were also requests for changes in areas of interest to particular segments of the market.

The Consultation Paper sets out for public comment issues identified in the course of the SFC's review. In some areas the SFC has set out proposals for change to address these issues. The SFC will also revise the [Outline of Part XV](#), a guidance publication, to assist understanding of the provisions. In relation to other areas, the SFC is seeking further views from the public before proposing changes. Some of the more significant matters of general application on which the SFC is seeking further views are as follows:

- Facilitating filing
- Disclosure of "security interests"
- "*de minimis*" exception
- Change in nature of interest

The HKICPA is considering the Consultation Paper and will keep members informed of any significant developments on the matter.

16. **HKEx Publishes Consultation Paper On New Structure For Listing Decision-making**

Hong Kong Exchanges and Clearing Limited (HKEx) published a [Consultation Paper](#) on a new structure for listing decision-making on 18 February 2005. The Consultation Paper is available at the HKEx's office and its website. The consultation period will end on **22 April 2005**.

In the March 2004 [Consultation Conclusions on Proposals to Enhance the Regulation of Listing](#), the Government extended an invitation to HKEx to consider how suggestions made during the Regulation of Listing consultation process concerning the composition and operation of the Listing Committee could be implemented. This Consultation Paper sets out proposals developed by the Stock Exchange's Listing Division in consultation with the Securities and Futures Commission. It explains the proposed new structure and sets out draft amendments to the Main Board and GEM Listing Rules (together, the Rules) that would implement the structure.

The aim of the consultation proposals (a summary of it is contained in the [HKEx press release](#)) is to put in place a clearer and more efficient administrative framework for decision-making in listing matters, such as listing applications and suspected breaches of the Rules, whilst also preserving the checks and balances necessary to minimise and manage regulatory risk including real or potential conflicts of interest within HKEx.

The HKICPA is considering the Consultation Paper and will keep members informed of any significant developments on the matter.

Taxation

17. Annual Meeting Between HKICPA And IRD Held In January 2005

As reported in [TechWatch No. 28](#), representatives of the HKICPA met the Commissioner of Inland Revenue (CIR) and members of her staff in January 2005. The minutes of the Annual Meeting 2005 are being prepared and the intention is that once they have been agreed, as in previous years, they will be published as a Tax Bulletin. The previous years' bulletins can be accessed at the [HKICPA's website](#).

One of the issues raised at the Annual Meeting was a request from the HKICPA to be able to release information on some of the more urgent matters prior to the publication of the Tax Bulletin, as was done last year.

Filing Deadlines for the year of assessment 2004/05

In this connection, we are now able to inform members that the CIR has confirmed that the deadlines for lodging tax returns for the year of assessment 2004/05 will be as follows:

- "N" Code – 3 May 2005 (no extension)

Under the Block Extension Scheme:

- "D" Code – 15 August 2005
- "M" Code – 15 November 2005

However, noting that the Chinese New Year holiday will fall at the end of January 2006, the CIR has agreed to extend until 13 February 2006 the due date for filing "M" Code loss cases for the year 2004/05.

This year, again, the CIR raised the issue of discrepancies detected during field audits with a view to highlighting areas where, in the IRD's view, particular care should be exercised in the audit process

and in the preparation of tax computations. Areas to which the CIR drew particular attention included overstatements of purchases and technical adjustments. In the case of technical adjustments, the CIR again pointed out that penalties might be imposed in cases where it was clear that appropriate adjustments should have been made but had not been.

18. **HKICPA Responds To 2nd Consultation On Exemption Of Offshore Funds From Profits Tax**

As reported in [TechWatch No. 21](#), the HKICPA made a submission on 25 February 2004 in response to the government's request for comments on the proposed amendments to the Inland Revenue Ordinance (IRO) to exempt offshore funds from profits tax, which aimed to give effect to a measure announced in 2003/04 Budget.

Having considered all the submissions, the government has now proposed a revised approach, as set out in the [Consultation Paper on Exemption of Offshore Funds from Profits Tax](#).

One of the suggestions made in the HKICPA's February 2004 submission was to review the proposed requirement that offshore funds had to meet a non-resident beneficial ownership threshold of not less than 80% before the exemption would be available. This requirement has been dropped from the revised approach.

Under the revised approach, two sets of provisions would be enacted in the IRO – Exemption Provisions and Deeming Provisions.

The Exemption Provisions would grant a profits tax exemption to a non-resident (including an individual, a partnership, a trustee and a corporation) without regard to the composition of its beneficial owners. To reflect the government's position that the benefit of the exemption is aimed at non-residents, and is not intended for Hong Kong residents, the Deeming Provisions would deem assessable profits on a resident holding a beneficial interest of above a certain threshold in a tax-exempt non-resident fund, in respect of profits earned by the non-resident from securities trading transactions carried out through brokers/investment advisers in Hong Kong.

The HKICPA made a [submission](#) on the second consultation paper before the end of the consultation at the end of January 2005. The submission takes the view that the broad concept behind the Exemption Provisions under the revised approach represents an improvement over the previous approach, in as much as it disposes of the requirement to trace the ultimate beneficial owners of a fund. However, the definitions of "resident" and "non-resident" will be crucial and need to be clarified.

The HKICPA also expressed some doubts about the conceptual basis of the Deeming Provisions, under which Hong Kong residents may be made liable for Hong Kong-sourced profits derived by a separate entity. There are also potential practical problems with the Deeming Provisions, which are outlined in the submission.

In view of the various difficulties identified, the submission suggests that consideration might also be given to an alternative approach of basing the proposed exemption on a test that looks only to the residency of the immediate investors in a fund. This would not be inconsistent with tests adopted by other jurisdictions in exempting offshore funds from profits tax.

Corporate Restructuring & Insolvency

19. SFC Consults On The Operation Of The Investor Compensation Arrangements

The Securities and Futures Commission (SFC) issued a [Consultation Paper](#) on the Review of the Level and Funding of the Investor Compensation Fund, Broker Defaults since 1998 and the Operation of the Investor Compensation Arrangements, for comment by 4 February 2005.

The consultation paper was referred to the HKICPA Insolvency Practitioners Committee (IPC) for its consideration. Insolvency practitioners were amongst those consulted by the SFC prior to the drawing up of the consultation paper and the IPC did not consider it necessary to make a further submission.

Legislation & Government Initiatives

20. Further Consultation On Review Of The Copyright Ordinance

The Government has released a [Consultation Document on Review of Certain Provisions of Copyright Ordinance](#), relating to end-user criminal liability, copyright exemption and a number of other aspects in the legislation, for comments by 15 February 2005.

The HKICPA has previously made submissions on related issues (see [TechWatch Nos. 2, 14 and 16](#)), including the criminal provisions relating to end-user piracy, parallel importation of copyright works other than computer software and defence against criminal liability for employees in possession of an infringing copy. In the [submission](#) dated 16 August 2002, the HKICPA expressed its support for the initiative on the part of the Government (under the Copyright (Amendment) Bill 2001, which was enacted as the Copyright (Amendment) Ordinance 2003) to liberalise the restrictions on the parallel importation of computer software by removing the civil and criminal liabilities in relation to this activity.

The HKICPA's Expert Panel on Legal Matters sought short extension to the deadline for comment and is preparing a response. Members will be kept informed of any significant developments on the matter.

21. Information From The Companies Registry

(a) Company Statistics for 2004

The Companies Registry has released its statistics for 2004. These include the number of new local companies incorporated in Hong Kong and the number of new overseas companies that established a place of business in Hong Kong and registered under Part XI of the Companies Ordinance in 2004. The Registry notes that 65,558 new local companies were incorporated in 2004, an increase of 31% over 2003. Further details may be obtained from the Companies Registry's press release via its [website](#).

(b) Commencement of New Companies Registry Electronic Search Procedures

The new Companies Registry Electronic Search Service commenced on 28 February 2005. For more information, see the announcement on the Companies Registry's [website](#). A Demonstration on the Companies Registry's Electronic Search Procedures can also be accessed on the Companies Registry's [website](#).

Continuing Professional Development

22. HKICPA Invites Comments On IFAC IES7 On Continuing Professional Development

The HKICPA issues an Invitation to Comment on International Federation of Accountants' (IFAC) International Education Standard for Professional Accountants (IES) 7 – Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence. The [Invitation to Comment](#) has been posted on HKICPA's website. Members and interested parties are requested to submit their comments by **31 March 2005**.

The new IES requires all professional accountants, irrespective of whether he/she is in public practice or not, to complete 120 hours or equivalent learning units of relevant professional development activities in each rolling three-year period, of which 60 hours or equivalent learning units should be verifiable; and that a minimum of 20 hours or equivalent learning units should be completed in each year.

Subject to the comments received, the HKICPA CPD Committee intends to revise the HKICPA Statement 1.500 *Continuing Professional Development* to adopt the new IFAC Standard so that HKICPA Mandatory CPD Scheme maintains conformity with current IFAC Standard.

Comment Due Dates

DATE	SUBJECT
28 February 2005	Exposure Draft of 21 Proposed Hong Kong Standards on Auditing and Review Engagements, which has been posted on the HKICPA's website .
8 March 2005	Invitation to Comment on Draft Interpretation 24 <i>Revenue – Pre-completion Contracts for the Sale of Development Properties</i> , which has been posted on the HKICPA's website .
31 March 2005	Invitation to Comment on IFAC IES7 On Continuing Professional Development, which has been posted on HKICPA's website .
8 April 2005	Invitation to Comment on IAASB EDs of Proposed ISA 320 (Revised) "Materiality in the Identification and Evaluation of Misstatements" and Proposed ISA 540 (Revised) "Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)", which has been posted on the HKICPA's website .
30 April 2005	Invitation to Comment On Proposed SME Financial Reporting Framework And Financial Reporting Standard, which has been posted on the HKICPA's website .
Please send comments to commentletters@hkicpa.org.hk	