



# 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, Executive Director by [email](#).

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### HEADLINES

#### Spotlight

1. [Lifelong Learning: New CPD Requirements For All Members Effective 1 December 2005](#)
2. [Institute Issues Handbook Updates No. 17 And 18](#)
3. [Practice Review Discussion Forum 27 September 2005](#)

#### CPD & Events

4. [Professional Development Activities September To December 2005](#)

#### Financial Reporting

5. [Institute Issues SME Financial Reporting Framework And Standard](#)
6. [Institute Comments On IFRIC Draft Interpretations](#)
7. [Institute Invites Comments On IASB Proposed Policy On Technical Corrections](#)
8. [Companies \(Amendment\) Ordinance 2005 On Definition Of Subsidiary](#)

#### Audit & Assurance

9. [Institute Invites Comments On Proposed Guidance On SME-FRS Audit](#)
10. [Institute To Consult On Guidance To Auditors Regarding Preliminary Announcements](#)
11. [AASC Meeting Summary – 29 June 2005](#)

#### Corporate Governance

12. [Bilingual New Internal Control And Risk Management Guide Published](#)

#### Legislation & Government Initiatives

13. [Financial Reporting Council Bill – Significant Implications To The Profession](#)

### **Corporate Finance**

14. [SFC Invites Comments On Possible Reforms To The Prospectus Regime](#)
15. [SFC Issues Revisions To The Codes On Takeovers And Mergers And Share Repurchases](#)

### **Taxation**

16. [First Taxation Interest Group Forum Held On Double Taxation Arrangement With Mainland](#)
17. [Institute Comments On Expanding Double Taxation Arrangement With Mainland](#)
18. [Institute To Comment On Revenue \(Profits Tax Exemption For Offshore Funds\) Bill 2005](#)

### **For Information**

19. [Institute Announces New Appointment Of Director, Standard Setting](#)
20. [Companies Registry News](#)
21. [Court Of First Instance Issues New Practice Directions On Public Hearings](#)

### **Comment Due Dates**

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### **Previous issues of TechWatch**

## **Spotlight**

### **1. Lifelong Learning: New CPD Requirements For All Members Effective 1 December 2005**

The Institute **announced** the introduction of new CPD requirements for all members in the new **Statement 1.500 "Continuing Professional Development" (August 2005)** issued as Handbook Update No. 18. The new CPD requirements will become effective from 1 December 2005. The new Statement is based on the principle that it is the responsibility of members to develop and maintain professional competence necessary to provide high quality services to their clients, employers and other stakeholders. It requires that all members, practising and non-practising, observe the same CPD requirements. A "rolling three-year period" is introduced, within which members have to complete a minimum of 120 CPD hours. A minimum of 20 CPD hours is required for each year, and a total of 60 out of 120 CPD hours over a rolling three-year period should be verifiable.

As a condition for members' annual membership renewal, around November each year, the Institute will ask members to confirm that they have complied with the CPD requirements by way of an annual declaration. Members will need to keep their CPD records for at least five years (instead of the current requirement of two years) and produce these records to the Institute if they have been selected in the annual audit exercise.

The new requirements are in conformity with **International Education Standard for Professional Accountants 7 "Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence"** issued by the International Federation of Accountants.

The Institute has also prepared a handy **"Quick Guide to New Requirements – Continuing Professional Development"**, which is intended to give members a short summary of the key aspects of the new requirements.

To enable members to obtain a better understanding of the new CPD requirements and to answer any queries they may have, the Institute will also organise information sessions on the new CPD requirements later this year.

### **2. Institute Issues Handbook Updates No. 17 And 18**

**Update No. 17** encloses the new *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard*. Further details are set out in the "Financial Reporting" section below.

**Update No. 18** encloses the new Statement 1.500 "Continuing Professional Development" as mentioned in (1) above.

### **3. Practice Review Discussion Forum 27 September 2005**

The Institute issued on 30 July 2005 of a **Communication Paper** providing details on the progress of the revision of the Practice Review Programme and seeking comments on the proposed Practice Review Self-assessment Questionnaire. In order to enable members to obtain a better understanding of the Communication Paper, the Institute will organise a discussion forum on Tuesday, 27 September 2005, 7:00 – 9:00 p.m. at the Pacific Place Conference Centre.

Seats are limited to 200. Please click [here](#) to download the registration form.

## **CPD & Events**

### **4. Professional Development Activities September To December 2005**

The world of business and finance is constantly evolving. Each week brings new challenges, new circumstances, new products, new services and new standards. So we, as CPAs, must remain firmly at the leading edge of that evolution. And how do we do that? **Through diligence, hard work, and a solid commitment to lifelong learning.**

Enrol early to secure a seat in the following popular professional development activities, as several of the seminars and workshops are already full:

#### ➤ **HKFRS/IFRS**

- Applying the Financial Instrument Standards, HKAS 32 and 39 (8 September) **FULL**
- HKFRS 2: Share-based Payment (12 September) **FULL**
- HKAS 16 Property, Plant and Equipment & HKAS 36 Impairment of Assets (17 September) **FULL**
- Hong Kong Auditing Preface and Planning an Audit of Financial Statements (HKSA 300) (21 September)
- Issues in Applying HKFRS 3, HKAS 36 and 38 (24 September) **FULL**
- HKFRS 6 Exploration for and Evaluation of Mineral Resources & HKAS 41 Agriculture (5 October)
- HKAS 38 Intangible Assets & HKAS 2 Inventories (15 October) **FULL**
- Issues in Applying HKFRS 5 and HKAS 27, 28 and 31 (29 October) **FULL**
- Overview of HK(IFRIC) Interpretations 1, 2, 3, 4 and 5 (1 November)
- Issues in Applying HKAS 16, 17 & 40 (19 November) **FULL**
- HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 18 Revenue, HKAS 20 Accounting for Government Grants and Disclosure of Government Assistance, HKAS 11 Construction Contracts & HKAS 23 Borrowing Costs (26 November) **FULL**
- HKAS 12 Income Taxes (10 December) **FULL**
- **HKICPA/FTC Joint Accountancy Programmes** (August to December 2005)
- **HKICPA/ICAEW IFRS Learning and Assessment Programme**

#### ➤ Other Programmes and Activities

**Introductory Insolvency Training Course 2005** (commencing on 8 October)

#### **Seminars**

- **Create Value and Manage Risk in PRC** (13 September)
- **初級普通話** (13 September to 8 November) **FULL**
- **Managing Information Flow – A Legal Perspective** (14 September)
- **商貿普通話** (15 September to 20 October) **FULL**
- **澳門稅制及稅務優惠** (23 September)
- **電腦保安、電腦病毒及防止電腦駭客** (26 September)
- **Cyber Crime** (25 October)

#### **Workshops**

- **Enhancing Business Performance** (17 September)
- **Running Effective Meetings** (2 sessions – 15 & 22 October)

#### **e-Learning**

- Annual Auditing Update Conference 2005
- Annual Accounting Update Conference 2005
- Annual Taxation Update Conference 2005

## **Financial Reporting**

### **5. Institute Issues SME Financial Reporting Framework And Standard**

The Institute released ***SME Financial Reporting Framework and Financial Reporting Standard*** (SME-FRF & FRS) after five years of development and three rounds of consultation. The SME-FRF & FRS is effective for a Qualifying Entity's financial statements that cover a period beginning on or after 1 January 2005.

SME-FRF sets out the conceptual basis and the qualifying criteria for the preparation of financial statements in accordance with SME-FRS. SME-FRS sets out the recognition, measurement, presentation and disclosure requirements for an entity that prepares and presents its financial statements in accordance with SME-FRS.

Entities that qualify for reporting under SME-FRF and preparing financial statements in accordance with SME-FRS include Hong Kong incorporated companies that meet certain legal requirements (such as the section 141D companies) and overseas companies that have no public accountability; meet size test (any two of the following: (i) annual revenue not exceeding HK\$50 million; (ii) total assets not exceeding HK\$50 million; and (iii) 50 employees or less); and all owners agree to use SME-FRS.

For members' convenience, a bound volume booklet of SME-FRF & SME-FRS has been produced and is available for **sale** at the Institute's counter at HK\$50 per copy.

### **6. Institute Comments On IFRIC Draft Interpretations**

The International Financial Reporting Interpretations Committee (IFRIC) released for public comment Draft Interpretations D16 *Scope Of IFRS 2* and D17 *IFRS 2 – Group And Treasury Share Transactions*.

D16 seeks to clarify that transactions within the scope of IFRS 2 *Share-based Payments* include those in which the entity cannot specifically identify some or all of the goods or services received.

D17 seeks to give guidance on whether share-based payment transactions involving treasury shares, or two or more entities within the same group of entities should be accounted for as cash-settled or equity-settled share-based payment transactions under IFRS 2.

Under the Institute's due process for setting accounting standards, the FRSC issued an **Invitation to Comment on the Draft Interpretations** and made a **submission** to the IFRIC. While the Institute appreciated the IFRIC's initiative to provide accounting guidance for the issue addressed in D16, it did not consider that D16 interpreted IFRS 2 fairly and would like the IFRIC to reconsider D16 before finalising it. Although the Institute generally agreed with the proposals set out in D17, it expressed concerns that the classification based on who granted an award would lead to structuring of arrangements to achieve a desired accounting.

Following from the IASB's final approved Interpretations, the FRSC intends to recommend the adoption of two new Hong Kong (IFRIC) 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. Institute Invites Comments On IASB Proposed Policy On Technical Corrections

The Institute issued an **Invitation to Comment** on IASB Proposed Policy on Technical Corrections, requesting comments by **15 September 2005**.

The Proposed Policy on Technical Corrections sets out the types of issue that a technical correction addresses; the initial identification of technical corrections; and the technical corrections due process.

## 8. Companies (Amendment) Ordinance 2005 On Definition Of Subsidiary

With an aim to converge fully HKFRSs with IFRSs, the Institute initiated a few years ago the project to amend the definition of "subsidiary" in the Companies Ordinance so as to enable Hong Kong incorporated companies to use the definition of "subsidiary" in International Accounting Standard 27 *Consolidated and Separate Financial Statements* for the purpose of preparing group accounts. On this project, the Institute has worked closely with the Administration and tremendous efforts have been put in by both parties in responding to the comments made and issues raised both at the drafting stage of the legislation and the LegCo Bills Committee stage.

The Institute's proposal was finally accepted with the passage of the **Companies (Amendment) Ordinance 2005** ("CAO") which was gazetted on 8 July 2005.

The CAO introduces a definition of "subsidiary undertaking" and a definition of "parent undertaking". It also includes a provision to deem a holding company to include a parent company and a subsidiary to include a subsidiary undertaking for the purpose of preparing group accounts, and contains a true and fair overriding provision.

Before the amendment to the Companies Ordinance, a holding company incorporated in Hong Kong consolidates the results of entities if those entities meet the definition of "subsidiary" in the Companies Ordinance. As a result of the CAO, a parent company will consolidate the results of entities if it has control over those entities.

It is expected that the new definition of "subsidiary" in the CAO will be applicable to financial statements covering periods beginning on or after 1 January 2006. This will be formally announced by the Administration by way of a Commencement Notice of the CAO to be gazetted.

### **Audit & Assurance**

## 9. Institute Invites Comments On Proposed Guidance On SME-FRS Audit

The Institute issued an **exposure draft** of proposed PN 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard" for comments by **15 October 2005**. The proposed PN seeks to give guidance on the applicability of Hong Kong Standards on Auditing to the audit of financial statements prepared in accordance with the SME-FRS.

The proposed PN 900 will apply to the audit of financial statements prepared in accordance with the SME-FRS, including companies applying section 141D, that cover a period beginning on or after 1 January 2005. The existing PN 600.2 "Audit Approach to Companies Applying Section 141D of the Companies Ordinance" will continue to apply to the audit of companies applying section 141D that cover a period beginning before 1 January 2005 (except where a company early adopts the SME-FRS, in which case the proposed PN 900 will apply).

## 10. Institute To Consult On Guidance To Auditors Regarding Preliminary Announcements

The Institute will soon issue an Exposure Draft of proposed Practice Note (PN) “Guidance to Auditors with Regard to Preliminary Announcements of Results for the Full Year”.

The proposed PN will provide guidance to auditors on their responsibilities with regard to preliminary announcements of results for the full financial year of listed issuers. The directors of a listed issuer are required by the Main Board Listing Rule 13.49(2) and GEM Listing Rule 18.49 to publish a preliminary announcement of the annual results which shall have been agreed with its auditors before it is published.

The Listing Rule requirements for a listed issuer to obtain its auditors’ agreement with the preliminary announcement of its results have become effective for annual results announcements for accounting periods commencing on or after 1 July 2004, i.e. first applicable to June 2005 year end announcements.

## 11. AASC Meeting Summary – 29 June 2005

This [AASC meeting summary](#) covers:

- Issuance of the 21 Hong Kong Standards on Auditing and Review Engagements
- IAASB items
- Proposed guidance to auditors with regard to preliminary announcements of results for the full year
- Proposed Audit Report for the proposed SME Financial Reporting Framework and Financial Reporting Standard
- Proposed revision to PN 600.2 “Audit approach to Companies applying section 141D of the Companies Ordinance”
- Working Group on Types of Reporting – Progress Report
- Proposed Guidance on Auditors’ Report on Financial Statements of Investment Funds Authorized under the SFC Code on Unit Trusts and Mutual Funds

### **Corporate Governance**

## 12. Bilingual New Internal Control And Risk Management Guide Published

As mentioned in [TechWatch No. 34](#), the Institute launched its latest corporate governance guide entitled “[Internal Control and Risk Management – A Basic Framework](#)” in June 2005. The guide provides a basic conceptual framework, general principles and recommendations for a system of internal control and risk management. It will be a useful reference for listed companies and their subsidiaries, as well as other types of companies that aim to implement or enhance their system of internal control.

Members may obtain one free printed copy of the guide by completing and sending the [Request Form](#) to the Operation and Finance Department of the Institute. Additional printed copies can be purchased at the Institute’s counter.

## **Legislation & Government Initiatives**

### **13. Financial Reporting Council Bill – Significant Implications To The Profession**

The **Financial Reporting Council (FRC) Bill** was gazetted on 17 June 2005 and introduced into the Legislative Council (LegCo) on 29 June 2005.

The Institute has been working closely with the Financial Services and the Treasury Bureau of the Government, the Stock Exchange of Hong Kong, the Securities & Futures Commission and the Companies Registry on the proposed new legislation. The Institute will make a submission to the LegCo FRC Bills Committee.

The FRC's main tasks, through its two proposed executive arms, namely, the Audit Investigation Board and the Financial Reporting Review Committees, will be to carry out investigations into suspected irregularities concerning auditors of corporations and collective investment schemes listed in Hong Kong (listed entities), and to enquire into suspected non-compliance with relevant legal and accounting requirements of the financial reports of listed entities, respectively.

## **Corporate Finance**

### **14. SFC Invites Comments On Possible Reforms To The Prospectus Regime**

The SFC issued a **Consultation Paper** on 29 August 2005 to invite comments on possible reforms designed to modernise the regime governing the public offering of shares and debentures set out in Parts II and XII of the Companies Ordinance ("CO"). The possible reform initiatives are presented as 21 proposals, the overriding purpose of which is to encourage capital raising and issuance of securities and investments in Hong Kong by adjusting and refining the legal framework to facilitate offers while ensuring satisfactory standards of investor protection.

The consultation will end on 30 November 2005. A summary of the 21 proposals and their rationale are set in the Consultation Paper, including discussions on the following:

- Introduce a unified offering regime for all regulated investments currently falling under either the CO or the Securities and Futures Ordinance, i.e. consolidate all securities law into a single piece of legislation.
- Sponsors and managers of an offering should be liable for untrue statements in the prospectus, and the "reasonable belief" defence available to defendants in both civil compensation claims and criminal proceedings should be confined to cases where all reasonable inquiries have been made.
- Extend the right to claim compensation for losses resulting from untrue statements in a prospectus to secondary market purchasers, and removing the need to prove that the investor had relied on the prospectus.
- Highlight the requirement that the prospectus should contain all information that investors and their professional advisers would reasonably require in order to make an informed investment decision as a "disclosure standard" in the body of the legislation and specifically attach liability to any failure to meet it.
- Ways to tackle pre-deal research reports issues.



## 15. **SFC Issues Revisions To The Codes On Takeovers And Mergers And Share Repurchases**

As mentioned in [TechWatch No. 30](#), the SFC in November 2004 issued a consultation paper inviting public comments on proposed changes to the Codes on Takeovers and Mergers and Share Repurchases (“the Takeover Codes”) in order to keep them up-to-date with market developments and international practice.

The SFC released the [Consultation Conclusions Paper on a Review of the Codes on Takeovers and Mergers and Share Repurchases](#) on 22 August 2005. The main revisions to the Takeover Codes will take effect on 1 October 2005, including:

- “Low-ball” offers – The new provisions provide that a voluntary offer at a discount of more than 50% to the market price of the shares will not normally be allowed to proceed.
- Frustrating actions – The revised Takeover Codes provide that once a successful offeror calls a general meeting to appoint directors of the offeree company, the existing board must co-operate fully and convene a general meeting as soon as possible. During this period the existing board will also be restricted from taking any frustrating action such as issuing new shares, or selling or acquiring assets of material amounts without shareholder approval.
- Telecom mergers – The revised Takeover Codes provide a broad framework for dealing with telecom mergers that are subject to review by the Telecommunications Authority under the laws introduced in July 2004.

There are also a number of changes to the Takeover Codes relating to the vetting of documents in order to shorten the vetting process where appropriate.

### **Taxation**

## 16. **First Taxation Interest Group Forum Held On Double Taxation Arrangement With Mainland**

The Institute launched its [Taxation Interest Group](#) (“TIG”) at an inaugural cocktail reception held on 10 June 2005. The first TIG discussion forum was held on 16 August 2005, on the topic of “Issues on Mainland – Hong Kong Double Taxation Arrangement” (“Arrangement”), which was attended by 120 participants.

The discussion forum provided a timely opportunity for exchange of views on issues with respect to the Arrangement before the Institute made its submission on expanding the Arrangement. The panel was chaired by the Institute’s vice president, Mr. Paul Chan and the speakers were Mr. Patrick Tam and Mrs. Ada Leung from the Inland Revenue Department and Mr. Peter Kung and Ms. Deborah Annells from the Institute. In addition, the Commissioner of Inland Revenue, Mrs. Alice Lau, joined the panel and participated in the discussion.

## 17. **Institute Comments On Expanding Double Taxation Arrangement With Mainland**

As mentioned in [TechWatch No. 34](#), a meeting has been scheduled to take place in early September 2005 between the Hong Kong SAR Government and the Mainland on the possibility of expanding the existing Arrangement for the Avoidance of Double Taxation on Income, and the Institute has been invited to submit its views.

The Institute made an initial **submission** and a **supplementary submission** with suggestions on the areas that should be covered in an expanded Arrangement, taking into account the problems with its existing provisions and the comments made at the TIG discussion forum held on 16 August 2005.

#### **18. Institute To Comment On Revenue (Profits Tax Exemption For Offshore Funds) Bill 2005**

At the invitation of the Bills Committee, the Institute's Taxation Committee is now considering the **Revenue (Profits Tax Exemption for Offshore Funds) Bill 2005** (the "Bill"). The objective of the Bill is to amend the Inland Revenue Ordinance to implement the proposal announced in the 2003/04 Budget, to exempt offshore funds from profits tax.

In response to previous consultations carried out by the government on the approach to effecting the proposed profits tax exemption for offshore funds, the Institute made a **submission** in February 2004 on the proposed legislative amendments to exempt offshore funds from profits tax. Having considered all the submissions, the government proposed a revised approach, on which the Institute also made a **submission**, in January 2005 (see **TechWatch No. 31**).

#### **For Information**

#### **19. Institute Announces New Appointment Of Director, Standard Setting**

Patricia McBride joined the Institute on 5 September 2005 as Director, Standard Setting. In her role as Director, Standard Setting and Head of the Department of Standard Setting, Patricia supports the financial reporting, auditing and ethics standard setting activities of the Institute. She can be contacted by phone at 2287 7247 or by email [patricia@hkicpa.org.hk](mailto:patricia@hkicpa.org.hk).

Patricia spent seven years with the Australian Accounting Standards Board (AASB), working on Australian financial reporting projects including life insurance, foreign currency and the presentation of financial statements. During her time at the AASB, Patricia also worked on international projects including providing technical support to the Chairman of the IASB's Extractive Industries Steering Committee and working with IASB staff on revisions to IAS 19 "Employee Benefits".

As well as having extensive standard setting experience, Patricia has worked as a policy adviser with CPA Australia and as a financial reporting specialist with a "Big 4" firm, as well as spending some years as an academic and in industry as a practising accountant. She has been involved in other aspects of financial reporting including membership of the G100 Working Party developing the Australian guidance on narrative reporting and she has authored a number of professional and technical articles.

#### **20. Companies Registry News**

##### (i) Statistics for first half of 2005

The Companies Registry (CR) has released statistics for the first six months of 2005, including, e.g., the total number of local companies and overseas companies registered under the Companies Ordinance during the period. Further details are contained in the CR's **press release**.

- (ii) Revised procedures for licence applications under Section 21 of the Companies Ordinance

The CR has issued a revised version of "[Procedures for applying to Registrar of Companies for a Licence under Section 21 of the Companies Ordinance \(Cap. 32\) \(Revised 2005\)](#)", which can be found under the "[List of Circulars](#)" section of the CR's website.

## 21. **Court Of First Instance Issues New Practice Directions On Public Hearings**

The Practice Master of the Court of First Instance has issued [Practice Directions 25.1](#) and [25.2](#), under which, with effect from 18 July 2005, all chambers hearings must be held in public, except those required by statute not to be open to the public or which, for reasons laid down in Article 10 of the Hong Kong Bill of Rights Ordinance (Cap.383), should not be held in public.

Certain matters relating to liquidations and bankruptcies are amongst those proceedings that would not usually be open, as set out in paragraph (4) of Schedule 2 to Practice Direction 25.1.

### **Comment Due Dates**

<b>DATE</b>	<b>SUBJECT</b>
15 September 2005	<a href="#">Invitation to Comment</a> on IASB Proposed Policy on Technical Corrections
30 September 2005	<a href="#">Invitation to Comment</a> on IASB Exposure Drafts of Proposed Amendments to: (a) IFRS 3 <i>Business Combinations</i> (b) IAS 27 <i>Consolidated and Separate Financial Statements</i> (c) IAS 37 <i>Provisions, Contingent Liabilities And Contingent Assets</i> and IAS 39 <i>Employee Benefits</i>
7 October 2005	<a href="#">Invitation to Comment</a> on IAASB Exposure Drafts of proposed ISA 701 "The Independent Auditor's Report on Other Historical Financial Information" and ISA 800 "The Independent Auditor's Report on Summary Audited Financial Statements"
15 October 2005	<a href="#">Exposure Draft</a> of Proposed Practice Note 900 "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard"
<b>Please send comments to <a href="mailto:commentletters@hkicpa.org.hk">commentletters@hkicpa.org.hk</a></b>	