



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 Ms. Patricia McBride, Director, Standard Setting by [email](#).

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TechWatch is prepared by the Hong Kong Institute of CPAs and is intended for general guidance only. Professional advice should be taken before applying the content of this publication to your particular circumstances. While the Institute 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 Institute.

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Spotlight

1. Handbook Update 30

Update 30 encloses three revised Interpretations:

- HK-Int 1 *The Appropriate Accounting Policies for Infrastructure Facilities*
- HK-Int 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*
- HK-Int 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

Further details are set out in the “Financial Reporting” section below.

2. Alert: Forthcoming Operative Dates Of Standards

(a) Standards that are effective in June 2006

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

- HKSA 230 “Audit Documentation” – effective for audits of financial information for periods beginning on or after 15 June 2006.
- System of quality control in compliance with conforming amendments to HKSQC 1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements” are required to be established by 15 June 2006.

Professional Ethics

- Code of Ethics for Professional Accountants – effective on 30 June 2006.
- Section 290 of the Code of Ethics for Professional Accountants, entitled “Independence – Assurance Engagements” – applicable to assurance engagements when the assurance report is dated on or after 30 June 2006.

(b) Standards that are effective at a later date

Hong Kong Financial Reporting Standards

- Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures* – effective for annual periods beginning on or after 1 January 2007.
- HKFRS 7 *Financial Instruments: Disclosures* – effective for annual periods beginning on or after 1 January 2007.

CPD & Events

3. Professional Development Activities July To September 2006

The Institute is committed to provide an all rounded CPD programme to suit the varying needs of members. Highlights for the months of July to September are:

Technical Update Evening (TUE)

A re-run session on **Commonly Asked Financial Reporting Questions** (TUE 618) will be held on 28 August 2006. To secure your seats, please register early by completing the **registration form** and returning it to the Institute.

New TUE programme for the next quarter will soon be released. Watch for it on the Institute's website.

Accounting & Auditing

- **HKFRS 5, HKAS 36 and HKAS 38 (Re-run)** (3 Aug)
- **Internal Control Report Presentation Skills** (16 Aug)
- **HKFRS 3 and HKAS 27, 28 and 31 (Re-run)** (24 Aug)
- **HKAS 27, 28 and 31: Consolidation and Equity Accounting** (30 Aug)

Taxation

- **Annual Taxation Update 2006** (15 Jul)

PRC

- **Company Law of PRC – Legal Issues** (10 Jul)
- **Latest Updates on Mainland China Transfer Pricing** (11 Jul)

Others

- **The Role of Company Accountants Play in a Listed Company Investigation** (12 Jul)
- **MPF – Five Years in Review** (18 Jul)
- **Financial Planning – Value Added Service for CPAs** (25 Jul)
- **Investor Relations** (21 Aug)
- **Essence of Retirement Planning – Why and How** (29 Aug)
- **A Revisit of the SFC Licensing Provisions Following Recent Disciplinary Actions Against Unlicensed Dealing** (31 Aug)

Soft Skills & Language

- **Consultative Selling** (5 Jul)
- **Crisis Management and Leadership for Accountants** (8 Jul)
- **From Good to Great Leaders** (22 Jul)
- **Meyers-Briggs Type Indicators for Management Development and Team Building** (5 Aug)
- **普通話課程** (commencing 5 Sept)

Please view the full programme [here](#) and enroll before they are full.

4. Annual Auditing Update Conference – Saturday, 21 October 2006

The Annual Auditing Update Conference has been scheduled for Saturday, 21 October 2006. Further details will soon be available. Proposed topics to be covered in the Conference include:

- Fraud Consideration – HKSA 240
- Improving Audit Documentation – HKSA 230
- The New Audit Report Standards – proposed HKSA 700 and HKSA 701
- Draft Discussion Paper “Requests For Special Purpose Reports”
- Investment Circular Reporting Engagements

Please mark the date of the Annual Auditing Update Conference in your diary.

Financial Reporting

5. Institute Invites Comment On IASB ED Of Proposed Amendments To IAS 23

The Institute has issued an [Invitation to Comment](#) on IASB exposure draft (ED) of Proposed Amendments to IAS 23 *Borrowing Costs*, with comments requested by **13 September 2006**.

The ED proposes to require an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately recognising borrowing costs as an expense would be removed.

The IASB believes that elimination of one of the two options in accounting for borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset would improve financial reporting and result in information that is more comparable between entities.

6. Institute Comments On International Pronouncements

- (a) IASB exposure draft of Proposed Amendments To IFRS 2 *Share-based Payment – Vesting Conditions And Cancellations*

The IASB exposure draft deals with two matters. It proposes that vesting conditions (i.e., conditions that an individual or an organisation must satisfy to receive an entity’s shares under a share-based payment arrangement) should be restricted to service conditions and performance conditions. It also proposes that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

The Institute’s [submission](#) to the IASB raised concern about the proposed amendments to IFRS 2 as they are rule-based and fail to take into account the substance of the transactions.

- (b) Proposed UITF Abstract “The Interpretation of equivalence for the purposes for section 228A of the Companies Act 1985”

With effect for accounting periods commencing on or after 1 January 2005, section 228A of the UK Companies Act 1985 exempts, subject to certain conditions, an intermediate parent undertaking from the requirement to prepare consolidated accounts where its parent entity is not established under the law of a European Economic Area state. The exemption conditions include the condition that the intermediate parent and all of its subsidiaries are included in consolidated accounts for a larger group drawn up in accordance with the provisions of the Seventh Directive or in a manner equivalent to consolidated accounts so drawn up. The proposed UITF Abstract “The interpretation of equivalence for the purposes for section 228A of the Companies Act 1985” issued by the UK Accounting Standards Board (ASB) aims to give interpretation of equivalence for the purposes of section 228A of the UK Companies Act 1985.

The proposed UITF Abstract refers Hong Kong GAAP as being a GAAP that is based on IFRS but does not correspond with IFRS in all respects. The Institute's [submission](#) to the ASB requested that reference be removed or updated for the recent achievement of convergence of HKFRSs with IFRSs.

7. **Consequential Amendments To HK Interpretations**

The Institute has issued the following revised Interpretations:

- HK Interpretation 1 *The Appropriate Accounting Policies for Infrastructure Facilities*
- HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*
- HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

The revisions in the above Interpretations are consequential on the replacement of SSAPs by the relevant HKASs with effective for annual periods beginning on or after 1 January 2005. Given that there are no material differences between the withdrawn SSAPs and the relevant HKASs as far as the above Interpretations are concerned, these Interpretations continue to apply after the changes.

8. **FRSC Meeting Summary – 10 May 2006**

This [FRSC meeting summary](#) covers:

- IASB Discussion Paper on Measurement Bases for Financial Reporting – Measurement on Initial Recognition
- IASB ED 8 *Operating Segments*
- Proposed consequential amendments to HK Interpretations
- Examples in HKAS 12 *Income Taxes*

Audit & Assurance

9. **AASC Meeting Summary – 25 April 2006**

This [AASC meeting summary](#) covers:

- HKICPA Invitation to Comment on IAASB ED of ISA 600 (Revised and Redrafted) on the Audit of Group Financial Statements
- Draft HKICPA submission on IAASB ED of proposed ISA 550 (Revised) on Related Parties
- Consideration of the adoption of extant ISA 800 “The Auditor’s Report on Special Purpose Audit Engagements”
- Working Draft of the proposed PN “The Audit of Accounts of Owners’ Corporation of Building”
- Accountants’ Report Project – Progress Report
- Draft comments on the Industry Consultation on Draft Accounting Manual for Television Programme Service Licensees

- Proposal of the Education Manpower Bureau to reduce the complexity of school accounts
- Appeal from *A Plus*
- Issues arising from Main Board Listing Rule requirement regarding report on continuing connected transactions and Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results”

Ethics

10. New Code Of Ethics For Professional Accountants Takes Effect On 30 June 2006

The new **Code of Ethics for Professional Accountants**, issued by the Institute in late 2005 adopting the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (the “IFAC Code”), is operative from 30 June 2006, which is the same effective date as the IFAC Code.

The new Code supersedes all the existing Professional Ethics Statements, which will be withdrawn from the Members’ Handbook in due course.

Banking

11. HKMA Disclosure Rules Consultation Paper

The Hong Kong Monetary Authority (HKMA) issued a **Disclosure Rules Consultation Paper** inviting comments on the minimum disclosure standards that the HKMA expects of authorized institutions (AIs) under the Banking Ordinance for the purpose of implementing the requirements of the new Capital Adequacy Framework (often referred to as “Basel II”). Further details are set out in **TechWatch No. 43**.

The Institute’s Expert Panel on Banking has been working closely with the HKMA during the development of the Consultation Paper. Comments were also provided through Mrs. Patricia McBride, Director of Standard Setting, who represented the Institute on the HKMA’s Working Party on Financial Disclosure. The Institute’s comments were primarily aimed at ensuring consistency with Hong Kong Financial Reporting Standards, and they were duly considered by the HKMA. The Institute welcomed the effort that the HKMA has been put in considering the Institute’s earlier comments and has made a **submission** in support of the Consultation Paper.

Taxation

12. TIG Holds Lunch Discussion And Networking Forum

The Taxation Interest Group (“TIG”) held a lunch discussion and networking forum on 15 June 2006. Co-chaired by Ms. Deborah Annells, convenor of the TIG Management Committee, and Mr. Lawrence Wong, member of the TIG Management Committee, the event provided a forum for practitioners to discuss current tax issues and topics. Issues discussed included:

- (i) New profits tax filing requirements for offshore companies holding rental property in Hong Kong.
- (ii) Transfer pricing issues arising from Hong Kong-Mainland cross-border transactions.
- (iii) Implementation problems with the new financial reporting standards.

After the discussion session, Mr. Gary Poon, member of the TIG Management Committee, carried out a demonstration on the use of the TIG chatroom facility on the [Institute's website](#) (under "Discussion Forum", and "Taxation Interest Group"), which could be used by members to exchange views on tax issues and problems.

13. IRD Launches Web Archive Of Updates Of Relevant Ordinances

At the Annual Meeting held in January 2006 between the Institute and the Inland Revenue Department ("IRD"), it was noted that only current updates of the Inland Revenue Ordinance and other relevant ordinances could be viewed on the "What's New" section of the IRD website, and then only for a limited period of time. The IRD has now posted a new section on its website, which provides an archive of past amendments to relevant ordinances going back to 2003. "Amendments to Ordinances Administered since 2003" can be accessed under "[Publications & Press Releases](#)", and "[Ordinances Administered](#)" or through the "What's New" section of the IRD website, under "[Newly added information: Enactments relating to Ordinances Administered since 2003 \(June 8, 2006\)](#)".

14. IRD Provides FAQs On DIPN 42: Tax Implications Of Imputed Interest On Interest-free Loans And Non-Arm's Length Loans

The IRD's website now provides some FAQs on the interpretation of Departmental Interpretation and Practice Notes (DIPN) No. 42 *Taxation of Financial Instruments and Taxation of Foreign Exchange Differences* and the interface between DIPN 42 and HKAS 39 in relation to imputed interest ([FAQ for DIPN No. 42](#)). One of these FAQs explains the taxation implications of imputed interest on interest-free loans and non-arm's length loans. The IRD states that for interest-free loans, notwithstanding the accounting treatment, only the actual interest income/expenses, based on the contractual rate (zero rate for interest-free loans) will be assessed/allowed for tax purposes. Similar taxation treatment will also apply to the imputed interest involved in those loans bearing off-market interest rates.

International Meetings

15. International Accounting Standards Board

The IASB met in London on 20 – 23 June 2006 and discussed the following topics:

- Financial instruments
- Insurance
- Accounting standards for small and medium-sized entities
- Fair value measurement
- Amendments to IAS 37
- Conceptual Framework
- Update on IFRIC activities
- ASB project on pensions accounting
- IAS 33 *Earnings per share* – treasury stock method
- Technical plan

Click [here](#) to see the June 2006 IASB Update of the Board Decisions on IFRS. The IASB next meets on 17 – 21 July 2006.

16. International Financial Reporting Interpretations Committee

The IFRIC will be meeting in London on 6 and 7 July 2006. Further details about the meeting will be reported in the next issue of TechWatch.

17. International Auditing And Assurance Standards Board

The IAASB will be meeting in Brussels from 10 – 13 July 2006. The following topics will be discussed:

- Modifications to the Opinion in the Independent Auditor's Report and Emphasis of Matter and Other Matters Paragraphs (Approval of Close Off Document)
- Clarity Project – ISAs (Review of Responses to the Exposure Draft)
- Materiality and Misstatements (Review and Approval of Proposed Clarity Exposure Draft)
- Using the Work of an Expert (First read of proposed Exposure Draft)
- Auditor's Report on Summary Financial Information (Review of Responses to the Exposure Draft)
- International Convergence (Approval of Guide for National Standard Setters that adopt IAASB Standards)
- Material Weaknesses in Internal Control (Discussion of Issues)
- Written Representations (Discussion of Issues)

Click [here](#) for further details.

18. International Ethics Standards Board For Accountants

The IESBA met on 13 and 14 June 2006 in Prague, Czech Republic. The Institute was represented by Mr. Mark Fong, Vice President and Chairman of the Ethics Committee, as a member of the IESBA, and Mrs. Patricia McBride, Director of Standard Setting, as technical advisor to Mr. Fong.

Topics discussed were:

- Independence
- Network firms

The IESBA has approved for release changes to the revised definition of a network firm. The revision is effective for assurance reports dated on or after 31 December 2008.

Click [here](#) for the meeting summary. The IESBA next meets on 16 to 18 October 2006.

For Your Information

19. Revised Non-Statutory Guidelines On Directors' Duties

The Companies Registry has posted a revised '[Non-Statutory Guidelines on Directors' Duties](#)' on its website.

Comment Due Dates

DATE	SUBJECT
7 July 2006	IAASB Exposure Draft of ISA 600 (Revised and Redrafted) <i>The Audit of Group Financial Statements</i>
11 September 2006	IASC Foundation's Consultation Document – Due Process of The International Financial Reporting Interpretations Committee Draft Handbook.
13 September 2006	IASB Exposure Draft (ED) of Proposed Amendments to IAS 23 <i>Borrowing Costs</i>
31 October 2006	HKICPA Exposure Draft of Discussion Paper: <i>Requests for Special Purpose Reports</i>
Please send comments to commentletters@hkiipa.org.hk	