



TechWatch updates you on technical developments in financial reporting, auditing, regulation and business. The Institute welcomes your comment, emailed to < commentletters@hkcipa.org.hk >. Click [here](#) for past issues.

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Financial Reporting, Auditing and Ethics

New!

1. HKFRS for Private Entities

The Institute has issued a **Statement of Intent** on 20 January 2010 setting out the reasons behind the intention of the Council of the Institute to introduce the modified IASB Final Standard on IFRS for SMEs as a reporting option for companies in Hong Kong which have no public accountability. The Council intends to issue the standard as HKFRS for Private Entities on 30 April 2010 to be effective immediately upon release subject only to unforeseen issues identified during the commentary period on this Statement of Intent ending on 31 March 2010.

The Institute will provide the following supporting activities/facilities to assist members and other stakeholders to access information in relation to the proposed standard:

- **Financial Reporting Lunch Forums** (22 and 26 February at 1 p.m. – 2 p.m.);
- **HKFRS for Private Entities – Overview Sessions** (18, 19, 23 and 26 March, 15 and 22 April at 2 p.m. – 5 p.m.);
- The **HKFRS for Private Entities Information Centre** has been set up at the Institute's homepage;
- **Financial Reporting and Auditing Alert – Issue 7**; and
- The Institute will launch detailed training sessions on specific topics of the standard after the standard is issued to address concerns and needs of practitioners and users.

2. Financial Reporting and Auditing Alert – Issue 6

The Institute issued **Financial Reporting and Auditing Alert – Issue 6** to set out a summary of common observations relating to the

application of HKAS 1 *Presentation of Financial Statements* identified from reviews of published financial statements under the Institute's professional standards monitoring programme. Although the observations are identified from reviews of financial statements of listed companies, they are also equally applicable to private entities.

Members' Handbook

3. Handbook Update No. 76

Update No. 76 contains consequential amendments to HKFRSs arising from the issuance of new Standards, new Interpretations or amendments to existing Standards and editorial corrections to HKFRS 9 *Financial Instruments* issued by the IASB.

The Institute has taken this opportunity to update the amendments in the relevant affected Standards, Basis for Conclusion and Implementation Guidance for greater clarity.

Financial Reporting

4. HKFRS Insights on HKFRS 9 *Financial Instruments*

In November 2009, the Institute issued HKFRS 9 which introduces new requirements for the classification and measurement of financial assets. This Standard is the first phase of a three phase replacement project of HKAS 39 *Financial Instruments: Recognition and Measurement* and the Derecognition project. HKFRS 9 is effective from 1 January 2013 with early adoption permitted. New requirements for classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting are expected to be added to this Standard in 2010, which HKFRS 9 will then be a complete replacement of HKAS 39.

HKFR 9 introduces a business model test that requires an entity to assess whether its business objective for a financial asset is to collect the contractual cash flows of the instrument rather than to realising its fair value

change from sale prior to its contractual maturity. Main features of HKFRS 9 include:

(i) Measurement categories of financial assets

- Number of measurement categories was decreased to two/three at either (a) amortised cost for some debt instruments or (b) fair value through profit or loss or fair value through other comprehensive income for some equity investments. The classification and measurement depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
- A financial asset is measured at amortised cost, subject to fair value designation option, if the asset is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows and the contractual terms of such asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principle outstanding. Otherwise, all other financial assets shall be measured at fair value.
- The fair value option at initial recognition for financial assets is still available if it eliminates or significantly reduces an accounting mismatch under HKFRS 9. The other two possibilities for fair value option, namely embedded derivatives and managed on fair value basis, allowed under HKAS 39 are no longer relevant.
- HKFRS 9 removes the cost exemption for unquoted equities and derivatives on unquoted equities, but provides guidance on when cost may be an appropriate estimate of fair value.

(ii) Embedded derivatives

- HKFRS 9 does not retain HKAS 39's concept of an embedded derivative for

hybrid contracts if the host contract is a financial asset within the scope of HKFRS 9. Consequently, embedded derivatives that would have been separately accounted for at fair value through profit or loss under HKAS 39 because they were not closely related to the financial asset host will no longer be separated.

- Instead, the contractual cash flows of the financial asset are assessed in their entirety and the asset as a whole is measured at fair value through profit or loss if any of its cash do not represent payments of principal and interest as described by the Standard.

(iii) Reclassifications

- For financial assets not designated at fair value through profit or loss under the fair value option, reclassification is required between fair value through profit or loss and amortised cost, or vice versa, if the entity's business model objective for its financial assets changes so that its previous model no longer applies. When a reclassification is required it is applied from first day of the first reporting period following the change in business model. The Standard expects reclassifications to occur very infrequently.

(iv) Comparative information and transition

- This Standard is required to be applied retrospectively. However, the business model assessment is to be made at the date of initial application which is the date when an entity first applied HKFRS 9.
- Entities adopting the new Standard with an initial application date before 1 January 2012 will be exempt from the requirement to restate prior periods.

For practical guidance, members may refer to:

- [HKFRSs/IFRSs Update](#) by BDO

- **IAS Plus Update** by Deloitte
- **Supplement to IFRS Outlook** by Ernst & Young
- **IFRS Briefing Sheet** by KPMG
- **First impressions on IFRS 9** by KPMG
- **HKFRS News** by PwC

Moreover, Deloitte has published an **illustrative financial statements** which illustrates early adoption of IFRS 9 and presents a statement of financial position at the beginning of the earliest comparative period (i.e. a third balance sheet) as required by paragraph 10(f) of HKAS 1(Revised) *Presentation of Financial Statements*. The additional statement is required because the entity has applied new accounting policy retrospectively in the year.

5. FRSC Minutes

This **FRSC minutes** on 1 December 2009 covers:

- Report on IASB Standards Advisory Council meeting on 12-13 November 2009
- Deferred taxation issue related to revaluation of investment properties
- HK-Int 4 Leases – Determination of the length of Lease Term in respect of HK Land Leases
- IFRS For SMEs
- Roundtable on Fair Value Measurement in Tokyo
- HKFRS 9 *Financial Instruments*
- Submission on various IASB Exposure Drafts (ED)
- HK(IFRIC) Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to HK(IFRIC) Interpretation 14 – *Prepayments of a Minimum Funding*

Requirement

- IASB ED of Proposed Amendments to IFRS 1 – *Limited Exemption from Comparative IFRS 7 for First-time Adopters*
- Requests for IFRIC interpretation – Clarification on the application of “consumption of economic benefits” in IAS 38 *Intangible Assets*

6. Invitation to Comment on IASB ED of Measurement of Liabilities in IAS 37

The Institute has issued an **Invitation to Comment** on IASB ED of *Measurement of Liabilities in IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, with comments requested by 29 March 2010.

IAS 37 applies to liabilities not covered by other accounting standards, such as liabilities to decommission assets and liabilities arising from legal disputes. The IASB previously published proposals to amend IAS 37, including revised measurement requirements. In the light of the comments received the IASB identified a need to develop more guidance on one part of those proposals: the measurement of these liabilities.

The ED proposes that the measurement of the liability should be the amount that the entity would rationally pay at the measurement date to be relieved of the liability. Normally, this amount would be an estimate of the present value of the resources required to fulfill the liability. The estimate would take into account the expected outflows of resources, the time value of money and the risk that the actual outflows might ultimately differ from the expected outflows.

International Meetings

7. International Accounting Standards Board

The IASB met on 5 January 2010 (additional meeting) and 18-22 January 2010, and discussed the following topics:

- Leases

- Insurance contracts
- Consolidation
- Fair value measurement
- Financial instruments: classification and measurement
- Financial instruments: hedge accounting
- Financial instruments with characteristics of equity
- Financial statement presentation
- Revenue recognition
- Derecognition
- Amendment to IFRS 1
- Discontinued operations
- IFRIC Update
- Post-employment benefits

Click to view the IASB Update on the meetings on [5 January](#) and [18-22 January](#). The IASB next meets in February 2010.

8. International Financial Reporting Interpretations Committee

The IFRIC met on 7-8 January 2010 and discussed the following topics:

- Accounting for production stripping costs
- Vesting and non-vesting conditions
- Agenda decisions
- Tentative agenda decisions
- Annual improvements

Click [here](#) to view the January IFRIC Update. The IFRIC next meets in March 2010.

9. International Auditing and Assurance Standards Board

The IAASB next meets in March 2010. Click [here](#) for the next meeting's details and previous meeting summary.

10. International Ethics Standards Board for Accountants

The IESBA next meets in February 2010. Click [here](#) for the next meeting's details and previous meeting summary.

Useful Resources

11. Publications

The following are publications on various topics:

- (i) Year-end statements preparation
 - [IAS Plus Update](#) by Deloitte
 - [Financial reporting update](#) by KPMG
- (ii) IFRS 9
 - [First impressions on IFRS 9](#) by KPMG
- (iii) Fair value hierarchy disclosure
 - [IFRS practise issues](#) by KPMG
- (iv) Operating Segments
 - [HKFRSs/IFRSs Update](#) by BDO
- (v) Going concern
 - [Guidance](#) by UK FRC
- (vi) Illustrative financial statements
 - [HKFRS financial statements 2009](#) by Deloitte
 - [HKFRS financial statements 2009](#) by PwC

(vii) Committee of European Securities
 Regulators enforcement decisions

- **Seventh batch of enforcement decisions** by Committee of European Securities Regulators

Comment Due Dates

29 March 2010: IASB Exposure Draft of *Measurement of Liabilities in IAS 37*

31 March 2010: Statement of Intent on HKFRS for Private Entities

7 June 2010: IASB Exposure Draft of *Financial Instruments: Amortised Cost and Impairment*

Specialist Practices, Business Members and Advocacy

Corporate Finance

12. SFC Proposes More Regulation of REITs and Collective Investment Schemes

The Securities and Futures Commission (“SFC”) has issued a **consultation paper** to solicit comments on proposals to:

- (i) extend the Codes on Takeovers and Mergers and Share Repurchases (“the Codes”) to SFC-authorized real estate investment trusts (“REITs”) and make related amendments to the REIT Code, including aligning the control structure of REITs with that of listed companies, and to the Codes, including introducing a set of REIT Guidance Notes.
- (ii) apply the market misconduct (Parts XIII and XIV) and disclosure of interests provisions (Part XV) in the Securities and Futures Ordinance (“SFO”) to listed collective investment schemes (“CIS”) to clarify and enhance the regulation of market conduct regarding dealings in listed CIS. Listed open-ended CIS will be exempted from Part XV of the SFO.

The consultation period will last for two months, ending on 8 March 2010. You are welcome to submit views to the Institute by emailing, under the headings “REIT and CIS”, to commentletters@hkicpa.org.hk, by 22 February 2010.

Insolvency & Corporate Restructuring

13. ORO Invites Tenders for Conducting Preliminary Examinations in Bankruptcy Cases

The Official Receiver’s Office (“ORO”) has issued a tender notice to invite interested parties to submit tenders for taking up of appointment to complete preliminary

examination in bankruptcy cases (Tender Ref: OR/B/2010). The contract period will last for 20 months, from May 2010 to December 2011. The deadline for submission is 4 March 2010 at 12:00 noon.

The tender form and relevant documents can be obtained from the ORO at 10th Floor, Queensway Government Offices, 66 Queensway, Hong Kong or downloaded from the [ORO's website](#).

Taxation

14. Institute Submits Proposals for the 2010-11 Budget

The Institute submitted proposals for the 2010-11 budget to the financial secretary, who will be announcing the budget on 24 February 2010. A member forum will be held that evening. To register, click [here](#) for details.

In the [submission](#), the Institute urged the government to take advantage of an improving economy to strengthen business competitiveness and families. The proposals include the following:

- Reduce corporate profits tax rate to 16% in 2010-11
- Increase child allowances and allowances for dependants under salaries tax and personal assessment to help families and middle-income earners
- Introduce clear and appropriate criteria for determining the source of profits and employment income
- Increase certainty in the finalisation of tax affairs, including by reducing the statutory time bar
- Introduce comprehensive transfer pricing rules, a group loss relief system and loss carry-back provisions
- Introduce tax incentives to support pillar and new industry sectors, such as financial services, innovation and technology, and producer and professional services

Please click the links for the [summary](#) and [full submission](#).

15. Legislation on Exchange of Tax Information Passed

The Legislative Council has passed an [amendment](#) to the Inland Revenue Ordinance to allow for a more extensive exchange of information article to be included in double tax agreements (“DTAs”) between Hong Kong and other jurisdictions. During the passage of the bill, the Institute submitted extensive comments on both the [bill](#) and [detailed information on safeguards](#).

With the passage of the bill, the Inland Revenue Department (“IRD”) is in a better position to negotiate new DTAs, and as the Commissioner explains in the latest issue of the Institute’s journal, “[A Plus](#)”, the IRD is in the process of negotiating with a number of Hong Kong’s trading partners.

Legislation & Other Initiatives

16. Companies and Business Registration (Amendment) Bills

The Companies (Amendment) Bill 2010, which aims to streamline and enhance the efficiency of the company incorporation procedure, and the Business Registration (Amendment) Bill 2010, which seeks to provide a one-stop simultaneous application for company incorporation and business registration, and enable the filing of business registration documents by electronic means, were gazetted on 22 January 2010 and introduced into the Legislative Council on 3 February 2010.

The proposed amendments look to tie in with the Companies Registry (“CR”)’s plan to accept on-line applications for company incorporation and filing of company documents, under the second phase of the Integrated CR Information System. With electronic incorporation, an application for company incorporation will be deemed to include a simultaneous application for business registration. The CR will issue the business registration certificate together with the certificate of incorporation to a successful

applicant. This will shorten the process of local company incorporation and business registration from an average of four working days to within one day, putting Hong Kong on a par with other jurisdictions, like the United Kingdom and Singapore.

The Companies (Amendment) Bill 2010 also introduces other amendments to the Companies Ordinance. Significant changes include:

- (i) expediting the company name approval process while giving the Registrar of Companies powers to enhance enforcement against abuses of the company name registration system, including, with a court order, directing a company to change an infringing name, and substituting that name with the company's registration number if it fails to comply with the Registrar's direction;
- (ii) facilitating companies to communicate with their members through electronic means and websites;
- (iii) expanding the scope of statutory derivative action by allowing a member of a related company to commence or intervene in a statutory derivative action on behalf of the company; and
- (iv) removing, or providing exceptions to, the limitations that compel the use of paper documents of title and paper instruments of transfer in relation to shares and debentures.

- (i) Articles on corporate governance by Deloitte

- [Asia Pacific economic outlook: Australia, China, India, Japan](#)

- [FEI CEO: 2010 Top Challenges for Financial Executives](#)

- [SEC's New Rules Raise the Bar on Proxy Disclosure in 2010](#)

- (ii) Tips for small business - articles for SMEs by ICAEW

- [10 ways to....Grow your business 2010](#)

- (iii) ["Enterprise Governance" winner of IFAC's Articles of Merit for PAIB](#)

Useful Resources

17. New Books in the Library

[Featured titles](#) and [new books](#) of high reference value for members are now available in the library.

18. Other Publications

The following articles/publications on topical issues may be of interest to members: