



## Council complete

Two additions raise size of Council to 23 members

▶ The Institute has co-opted two members to its Council for this year under section 10(4) of the Professional Accountants Ordinance. Paul K.K. Cheng and Chew Fook Aun (pictured *left*) were chosen from a field of seven candidates. The Council chose the new members with a view to maintaining a balance between accountants in practice and in business. Cheng is finance director of Worldsec Group and a director of First Worldsec Securities Limited. His expertise in the financial services industry will contribute to the Institute's work in this area. He has served on various committees of the Institute in the past ten years, including the Expert Panel on Securities, the Professional Accountants in Business Committee and the Ethics Committee. Chew is an executive director of Kyard Limited, and has served as a co-opted Council member for the past two years. He has been a chairman of the Corporate Governance Committee, deputy chair on a further five committees, as well as a member of the Fifth Long Range Plan Task Force.

### Institute »»in brief

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▶ The Institute will issue its second communication paper on the **practice review programme** this month, providing information on the latest revisions. The Institute issued its first paper and invited feedback in July last year. Please look for the second communication paper on the Institute website. The Institute will also hold forums on 20 and 29 March to introduce the selection basis of practice units for reviews, types of reviews and site visit methodology.

▶ A report of the Institute's **annual delegation to Beijing** last year is now on the Institute website. Please go to the "Mainland affairs, PRC-related information" section to see the discussion between the Institute and mainland authorities on mutual examination paper exemptions, CEPA, CPAs performing securities- and futures-related business and taxation arrangements. The visit has been a yearly event for Council members and representatives from the Mainland Affairs Committee since 1993.

▶ On 13 February, Hong Kong chief executive Donald Tsang was on hand to award the Institute the Hong Kong Council of Social Service's "outstanding partnership" award, for its **healthy budgeting and family counselling programme** with the Tung Wah Group of Hospitals. Institute president Paul M.P. Chan and Susanna Chiu, chairperson of the Community Services Committee, were present to receive the award.



# Budget diagnosis

Prudent, but too conservative, claims Institute

▶ Speaking on behalf of the Institute, president Paul Chan said he was pleased with most aspects of the financial secretary Henry Tang's 2006 budget, but said it was too conservative in certain areas, especially its tax concessions for the middle class.

In a media briefing on 22 February, Chan welcomed the decision to lower marginal salaries tax rates, but questioned whether this was necessarily the best approach. "We were hoping the government would also move the cap on tax relief for mortgages upwards from HK\$100,000," he noted. "This would help taxpayers more, especially given the increase in interest rates during 2005."

Chan welcomed the government's decision to move into a consultation period for its proposed goods and services tax (GST). While some have questioned the length of this period, Chan believed it was right to take more time over such a complicated and sensitive issue.

Members may be disappointed to hear the government is not planning to allow tax offsetting of losses for group companies. Chan felt this was an area where the government could have helped in the application of new accounting standards. "The financial secretary has underestimated the international competitive pressures on Hong Kong, as businesses in other jurisdictions can benefit from such incentives," he claimed.

Chan nevertheless felt encouraged by signs that the government is starting to adopt the "user pays" principle to environmental costs. He felt measures to discourage the use of plastic bags and to provide incentives for electric vehicles marked a good first step in this area.

## Standard setters head to Hong Kong

▶ Committees of the International Federation of Accountants (IFAC) traditionally meet around the world as part of their transparency initiative. As such, it is once again Hong Kong's turn to play host, this time to the International Auditing and Assurance Standards Board (IAASB). The meeting is an important opportunity for Institute members to understand where the IAASB is moving on key projects and to discuss issues of importance to Hong Kong. The Institute expects some Re-Exposure Drafts to be released over the next few months, including ISA 600 (Revised) *The Audit of Group Financial Statements*; ISA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*; and ISA 260 (Revised) *Communications With Those Charged With Governance*. Interested parties have the opportunity to attend the meeting as observers, to see standard setting in action.

### Error message

▶ Shares in Pacific Century Insurance Holdings Ltd. fell by nine percent in late January, after the company admitted it failed to apply Hong Kong Financial Reporting Standards and restated its net income for the first nine months of 2005. While the Securities and Futures Commission concluded the mistake was "reckless but not intentional," the Institute has not ruled out disciplinary measures against members involved in preparing the company's reports.

### ICAEW talk

▶ Robert Hodgkinson, executive director of the Technical Strategy Directorate from the Institute of Chartered Accountants in England and Wales (ICAEW), will speak at the third symposium of the Independent Commission Against Corruption (ICAC) on 9 May. Hodgkinson will speak in a plenary entitled "Roadmap for Governance."



### More momentum in property

▶ Hong Kong homeowners will be hoping for increased competition among mortgage lenders, after HSBC cut its effective interest rate to five percent, 2.75 percent below the prime rate, in February. Speaking at a lunch hosted by the Canadian Chamber of Commerce, Justin Chiu, executive director of Cheung Kong Holdings, noted a pick-up in the secondary market during 2005, offset by a slowdown in the primary market.

### A clean bill of health – almost

▶ The International Monetary Fund (IMF) has predicted 5.5 percent growth and falling unemployment for Hong Kong over the coming year, but repeated warnings about the territory's narrow tax base.

**Where your tax dollars really go**

▶ The International Public Sector Accounting Standards Board (IPSASB) has issued a proposed new standard on the financial reporting of revenue from non-exchange transactions. The standard would apply principally to income gained from taxes and transfers and clarify how, and when, a government can recognise that income.

**Share and share alike**

▶ The International Accounting Standards Board (IASB) has published an Exposure Draft of proposed amendments to IFRS 2 *Share-based Payment*. The Board proposes restricting vesting conditions and application of the same accounting treatment to all cancellations, whether they come from the entity or other parties.

**What green means**

▶ The International Federation of Accountants (IFAC) has issued a consultation paper to explore the assurance implications of sustainability reporting guidelines. The guidelines, compiled by the Global Reporting Initiative (GRI), are for voluntary use by organisations for reporting on the economic, environmental and social aspects of their activities.

**Macquarie drops bid**

▶ Australian bank Macquarie has dropped its ill-fated bid for the London Stock Exchange, claiming it had no plans to increase its initial US\$2.6 billion offer. The bid did not even match the share price of the exchange.

**Bank it like Beckham**

▶ Real Madrid have passed Manchester United to become the world's richest football club, according to the Deloitte Football Money League.

**International news**

## PCAOB in the Starr-light

Efforts led by Ken Starr are underway to circumvent the powers of SOX enforcer

▶ The United States' Public Company Accounting Oversight Board (PCAOB) is coming under legal attack from new foes challenging its constitutional basis.

A business lobby group called the Free Enterprise Fund has joined with CPA firm Beckstead & Watts to issue a lawsuit, claiming the PCAOB is a federal agency and should be bound by the constitution. One of the lead attorneys in the plaintiffs' suit is Ken Starr, the former independent counsel responsible for investigating U.S. president Bill Clinton in the 1990s. An affiliate group, the Competitive Enterprise Institute, has described the PCAOB as being "entirely unaccountable to any elected official." They also dispute the body's right to levy fees, or "taxes," on all U.S.-listed companies and claim that as a government body, the Senate, and ultimately the president, should appoint all board members.

Key to the defendants' case is proving the PCAOB is a self-regulating industry body. This distinction would affect whether the board can or should be defined as a federal government agency. At present the PCAOB's five members are selected for a five-year term by the Securities and Exchange Commission (SEC), and only two can come from the accounting profession.

Given that many senators seem to share the plaintiffs' sentiments, a reworking of certain aspects of the Sarbanes-Oxley legislation would almost certainly follow a successful lawsuit. If Congress were unable to find a way to revise it, the entire legislation could be threatened. Beckstead & Watts has come under scrutiny of the PCAOB in the past two years.

## India on board

India is taking a progressive view on meeting common international accounting standards

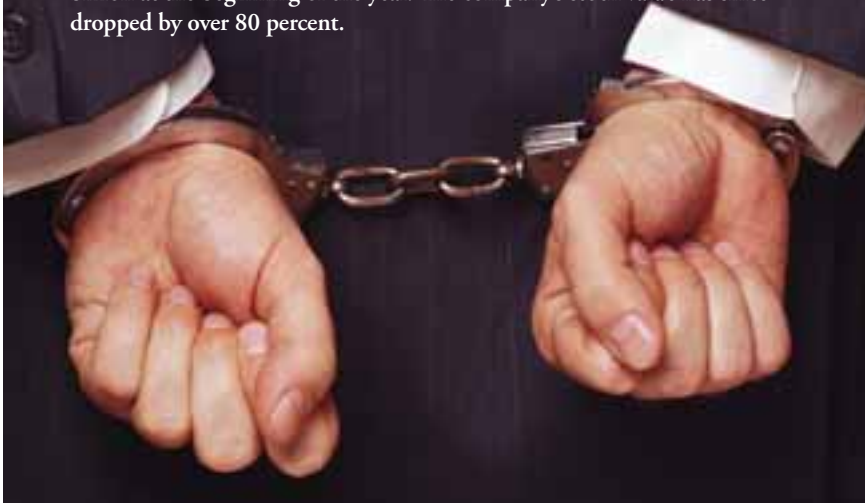
▶ Dr. Y.V. Reddy, governor of the Reserve Bank of India, spoke out in support of the country's move towards International Financial Reporting Standards (IFRS) at a conference hosted by the Institute of Chartered Accountants of India (ICAI) in Mumbai. "Accounting and auditing standards in India are being increasingly benchmarked against international standards," noted Reddy. He added, "The ICAI is making sustained efforts to align the Indian accounting standards with the international ones." The Indian *Business Standard* newspaper reports that the ICAI is preparing new accounting standards over the coming year, to deal with insurance contracts, agriculture, investment property and share-based payments.



## Closed door

### Livedoor founder Takafumi Horie charged amid market turmoil

▶ Takafumi Horie, the former CEO of Livedoor, was arrested in late January and subsequently charged with breaking securities laws, as Japanese regulators moved swiftly to investigate the internet company's demise. Japan's Securities and Exchange Surveillance Commission has accused Livedoor of inflating sales and profits, and reporting the acquisition of a firm already under its control. If the charges are proved correct, Livedoor could be forced to de-list from the Tokyo Stock Exchange. Horie's personal rise to celebrity status had matched the growth of Livedoor, which enjoyed a market capitalisation of over US\$6 billion at the beginning of the year. The company's stock value has since dropped by over 80 percent.



## Squeezing corruption

### International lenders to developing nations are ganging up on corrupt governments

▶ The World Bank, the IMF, the Asian Development Bank, the European Bank for Reconstruction and Development and the African Development Bank have agreed to pool their efforts to fight corruption in developing countries. Proposals on the table include greater information sharing and a task force to develop a common set of practices for fighting corruption and fraud. The World Bank has previously described corruption as the single greatest obstacle to economic and social development. It estimates that up to US\$1 trillion in bribes were paid out in 2003, a figure which does not include embezzlement or theft.

#### Koreans open up

▶ South Korea's Financial Supervisory Commission has approved regulatory amendments proposed by the Korea Exchange to allow non-Korean listed companies to use International Financial Reporting Standards (IFRS) or US GAAP instead of Korean Accounting Standards.

#### Accounting across the Atlantic

▶ European Union commissioner Charlie McCreevy met with the United States' Securities and Exchange Commission (SEC) chairman Christopher Cox in mid-February to discuss progress in eliminating the need for non-U.S. companies listed in New York to reconcile to U.S. GAAP. The IASB wants to eliminate the need for reconciliation to U.S. GAAP in SEC filings within two years. The agreement would apply to any company reporting under International Financial Reporting Standards.

#### Indians in the front office

▶ The Institute of Chartered Accountants of India (ICAI) has announced that it will lift a restriction on its practising members preventing them from conducting audit work in the United States if they are also members of the American Institute of Certified Public Accountants (AICPA).

#### U.S. housing propped up

▶ United States president George W. Bush has given homeowners a strong hint that he has no plans to scrap tax breaks on mortgage interest payments, despite recent promises to simplify the tax code.



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Mainland news

## news digest »»china

### ICBC joins the IPO line

▶ Mainland banking giant ICBC has confirmed it hopes to raise almost US\$10 billion through an initial public offering later this year. It is aiming for a September launch, according to the *China Daily*. ICBC has already agreed to sell strategic stakes to Allianz, American Express and Goldman Sachs.

### Keeping a light on

▶ The State Grid Corporation of China (SGCC) has pledged to spend Rmb800 billion (US\$99 billion) over the next five years to upgrade the country's electricity transmission network.

### Irregularities on the rise

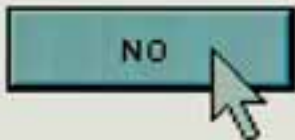
▶ China Banking Regulatory Commission (CBRC) claimed in February that it uncovered Rmb767 billion (US\$95 billion) of irregularities during 2005. This represented a 31 percent increase from 2004.

### Building foundations in the PRC

▶ Do-it-yourself retailer Home Depot is in talks to buy a 49 percent stake in Chinese chain Orient Home, according to a *Financial Times* report. The U.S. company first expressed an interest in entering the China market in 2004.

### E&Y chief has advice for managers

▶ David Sun Tak-kei, the newly appointed chairman of Ernst & Young China, has claimed the top challenge for staff is coping with shortages and heavy workloads. His advice to managers? Say no to impossible deadlines and give staff time to prepare for exams.



## Comfortably close

### China announces shift towards IFRS

▶ China's Ministry of Finance has announced it will introduce 39 new Chinese accounting standards in line with International Financial Reporting Standards (IFRS). These will be effective for listed enterprises from 1 January 2007. The Ministry has also adopted 48 new Chinese Auditing Standards that are similar to International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

The announcement was made at a ceremony in Beijing and was attended by Sir David Tweedie, chairman of the International Accounting Standards Board, Institute president Paul M.P. Chan and chief executive Winnie Cheung. Tweedie welcomed China's rapid move toward international standards and predicted it would encourage other countries in Asia to follow suit. While he acknowledged some exceptions still existed within the Chinese standards, he claimed the revisions bring China's accounting principles largely in line with international thinking.

## Manipulate this

### Bush administration tries to label China a currency manipulator

▶ According to reports in the *Financial Times* and the *Wall Street Journal*, United States Treasury officials are considering the possibility of naming China a "currency manipulator" in its twice-yearly report. Treasury officials have been talking to investors and academics about making such a claim, but remain concerned that the term, previously used in 1994, might wind up causing as much harm as good. The U.S. Congress has been calling for more pressure on China, with many of its members believing the yuan has not been allowed to rise in value fast enough. China ranks second only to Japan in terms of its U.S. Treasury bill holdings, although Beijing insists that the market determines the value of the yuan.



# Quicker off the draw

## PRC company aims for an IP showdown in Texas

► It is still a rare occurrence for a Chinese company to sue a United States company for intellectual property infringement, but that is exactly what happened in February. Netac has filed a lawsuit in an East Texas court against U.S. rival PNY Technologies, claiming patent infringement on one of its USB memory drives. The Shenzhen company is gaining a reputation for vigorously defending its intellectual property rights. In 2004 it won a patent infringement case against Beijing Huaqi Information Digital Technology Co. It has also sued and demanded compensation from a Patent Protection Association of China, vice president of Patent Protection Association of China, welcomed Netac's move, claiming, "It is encouraging to see Chinese companies becoming mature in using IPR to protect their interests."

