



TechWatch 70

The latest standards and technical developments

► Financial reporting

Comparison and dual compliance with HKFRSs and IFRSs

The Institute has updated the comparison table between the Hong Kong Financial Reporting Standards and the International Financial Reporting Standards up to 1 July 2008.

Although HKFRSs have been fully converged with IFRSs with effect from 1 January 2005, this does not automatically entitle companies reporting under HKFRSs to include an unreserved statement of compliance with IFRSs in their financial statements. Existing preparers applying HKFRSs that wish to claim compliance with IFRSs must also apply IFRS 1 *First-time Adoption of International Financial Reporting Standards* in the period when they first claim compliance.

Photo: Colin Beere

► Audit and assurance

LegCo election finance

The revised notes for candidate and independent auditor of candidate of the Legislative Council elections under the LegCo election financial assistance scheme is now posted on the Institute's website. The notes were prepared by the Registration and Electoral Office in consultation with the Institute for the September LegCo election.

Mainland companies strengthen internal controls

Three exposure drafts on internal controls have been issued by mainland financial regulators. The EDs about guidance on auditing, assessment and application to the enterprise internal control framework, will be effective for mainland listed companies from 1 July 2009.

Express your views to the Institute by email to commentletters@hkicpa.org.hk no later than 10 September.

► Ethics

Clarifying the Code of Ethics for Professional Accountants

The Institute invites comments until 10 September on the draft proposals of the IFAC International Ethics Standards Board for Accountants to clarify the Code of Ethics for Professional Accountants.

Comments should focus on changes to the code, and not on the code itself.

The proposed changes are:

- Revise wording to indicate clearly the requirements.
- Provide guidance on when a temporary departure from a requirement in the code is allowed and how to do it.

- Describe the five categories of threats to compliance with the fundamental principles and give examples of situations in which those threats might arise.
- Provide guidance on how to assess whether a threat to compliance with the fundamental principles is clearly insignificant, which is defined in the code as a matter that is deemed to be both trivial and inconsequential.
- Clarify the conceptual framework approach to emphasize the need for a professional accountant to apply the framework in the code to any situation that is not explicitly addressed in the code.
- Clarify that examples in the code must be followed.
- Put through drafting changes consistent with the following principles:
 - “Consider” is used when the accountant is required to think about several matters.
 - “Evaluate” is used when the accountant has to assess and weigh the significance of the matter.
 - “Determine” is used when the accountant has to conclude and make a decision.

The IESBA proposes that the revised code be effective on 15 December 2010, with earlier adoption encouraged.

► Corporate finance

Shortening the reporting deadlines by main board issuers

The Hong Kong Exchanges and Clearing Ltd. published on 18 July 2008 its consultation conclusion on shortening the deadlines for half-year and annual reporting by main board issuers. This dealt with some of the issues covered in the August 2007 consultation paper on periodic financial reporting, which was reported in TechWatch No. 60. The Institute’s submission on the consultation paper was reported in TechWatch No. 62.

The main decisions reflected in the conclusion are:

- Shorten the reporting deadlines for the release of half-year results announcements from three months to two months.
- Shorten the reporting deadlines for the release of annual results announcements from four months to three months.
- Retain the existing reporting deadlines for the release of half-year and annual reports, three months and four months, respectively.

The new requirements will come into effect for half-year and annual results announcements covering accounting periods ending on or after 30 June 2010 and 31 December 2010, respectively.

► Legislation and other initiatives

Companies Ordinance rewrite consultation

As reported in TechWatch No. 67, the government issues a consultation paper in April 2008 covering measures to improve provisions in the Companies Ordinance dealing with company names, directors’ duties, corporate directorship and registration of charges.

In its submission to the government, the Institute is generally supportive of the proposals with regard to company names.

The Institute expresses support, in principle, for the proposal to codify in the Companies Ordinance the basic principles of directors’ fiduciary duties and duties of care and skill, reiterating the position taken on a similar proposal put forward previously by the Standing Committee of Company Law Reform. However, the Institute does not support going beyond this, as in the Companies Act in the U.K., to include a duty for directors to promote the success of the company, having regard to a wider range of factors such as the interests of the employees, suppliers and customers and the impact of the company’s operation on the community and the environment.

On the proposal to abolish corporate directorships, noting that the international trend is to move towards greater transparency, the Institute supports, as a first step, adopting the U.K. approach, i.e. requiring at least one director to be a natural person. The opportunity is also taken to propose that, at the same time, proportionate liability for directors be considered, given that there is a risk that a sole natural person director could become, potentially, the target of claims against the company.

On the registration of charges, while being generally of the view that the present system is working satisfactorily and does not require any substantial changes, the Institute remains open-minded on streamlining certain provisions, where sufficient justification can be provided.

Other updates in TechWatch 70:

- Anti-money laundering/combating terrorism financing notices.
- Companies Registry issues new and revised documents.
- Deloitte publishes guidance on revised IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*.
- The AICPA, the Association of Certified Fraud Examiners and the Institute of Internal Auditors release *Managing the Business Risk of Fraud: A Practical Guide*.
- The Institute of Chartered Accountants of Scotland issues practical guide for directors of private companies.
- The trustees of the International Accounting Standards Committee Foundation publish a proposal on the enhancements to its accountability and to the IASB composition.

🔗 Quick link

Please refer to the full version of TechWatch 70, available as a PDF on the Institute’s website: www.hkicpa.org.hk/professionaltechnical/techwatch.