



TechWatch 73

The latest standards and technical developments

► Financial reporting

Institute comments on IASB discussion paper

The Institute made a submission to the IASB discussion paper on *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity*. The submission generally indicates support for the proposals made in the discussion paper. In particular, it agrees that a reporting entity should not be limited to business activities that are structured as legal entities. Furthermore, it agrees that a broad definition of control is appropriate at the conceptual framework level.

However, the Institute is concerned with the proposal that consolidated financial statements are presented from the perspective of the group reporting entity and not from the perspective of the parent company's stakeholders.

Institute comments on IASC Foundation discussion paper

The Institute made a submission to the IASC Foundation discussion document on *Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change*. The submission supports the creation of a monitoring group, which will establish a direct link of public accountability between the IASC Foundation and official institutions. It is important, however, to ensure that the monitoring group would not undermine the independence of the IASB standard-setting process.

The Institute also agrees that the proposal of expanding the size of the IASB and introducing geographical diversity can enhance the ability to consult interested parties. Furthermore, the Institute encourages the IASB to consider the formation of a regional or

functional groupings of stakeholders sponsored by the IASC Foundation in order to facilitate more effective communication in IFRSs. The Institute indicates that it would be pleased to host these regional or functional groups.

► Ethics

Institute comments on proposals to clarify the Code of Ethics for Professional Accountants

The Institute made a submission to the IFAC IESBA exposure draft on *Proposed Revised Code of Ethics for Professional Accountants*, setting out comments on the proposals to clarify in relation to the drafting conventions project. The submission indicates that the Institute is supportive of the current work of the IESBA, which seeks to consider the necessary revisions to auditor independence

requirements given the changing environment in the past few years.

The Institute also made certain comments on specific questions as requested and recommended further guidance on certain terms for better clarity.

► Taxation

2009 annual meeting with Commissioner of Inland Revenue

The next regular annual meeting between the Institute and Commissioner of Inland Revenue will be held in February 2009 to discuss matters of common interest or concern in relation to tax practice and procedure.

► Legislation and other initiatives

Institute comments on third public consultation on Companies Ordinance rewrite

As reported in TechWatch No. 69, the government issued a consultation paper on June 2008, covering legislative proposals in relation to the following:

i. Share capital

In its submission to the government, the Institute expresses support in principle of the proposal with regard to adopting a mandatory system of no-par for companies with a share capital.

As regards whether there should be any specific legislative control over the setting of issue price of no-par shares and whether or not to dispense with the requirement for authorized capital, the Institute notes that different approaches have been adopted in different jurisdictions and considers that more background information and further discussion are needed before deciding the best way forward for Hong Kong.

The Institute considers that the option of having partly paid shares should be retained and comments on related matters.

ii. Capital maintenance regime and statutory amalgamation procedure

Regarding the proposal in relation to capital maintenance regime, the Institute takes the view that in principle Hong Kong should adopt some form of “solvency test” approach to creditor protection and that in the long run, should apply to all forms of distribution. Since the existing rules on the distribution of dividends are said to have worked well, the solvency test could be extended to other forms of distribution initially and only later to dividends once directors have become more accustomed to the practical application of the test.

In addition, the existing solvency requirement in Hong Kong, which is basically a cash flow test, should be modified by including a balance sheet solvency test, covering both current and total assets and liabilities, to provide a more comprehensive and objective approach in the assessment of solvency and better safeguards for creditors.

The Institute also supports the proposals for introduction of court-free procedures on the reduction of capital and statutory amalgamations in Hong Kong, in addition to the existing court-sanctioned procedures. In the case of a court-free amalgamation procedure, this should be subject to a buy-out right for dissenting minority shareholders to safeguard their interest as in the New Zealand Companies Act.

► Companies Registry news

i. Companies Registry Trading Fund publishes annual report

The Companies Registry Trading Fund

has announced the publication of its annual report 2007-08, which covers initiatives conducted by the registry for the year ending 31 March 2008.

ii. Non-statutory guidelines on directors’ duties

Revisions have been made to paragraphs 3 and 4 in the introduction of the non-statutory guidelines on directors’ duties to align the guidelines with the contents of the advisory note and notes for completion in specified forms. The 11 principles of directors’ duties are unchanged.

iii. File returns under the Companies Ordinance on time

A new information flyer on file returns under the Companies Ordinance on time is now available.

Other updates in TechWatch 73:

- IASB update on details regarding the effective date of the amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*
- Deloitte IAS Plus on reclassification of financial assets
- KPMG IFRS briefing sheet on reclassification of financial assets
- PwC’s guide to explain and discuss derecognition of financial assets in practice and Q&A on HKAS 23 (revised) *Borrowing Costs* (part 2)
- IAASB meets in Brussels, Belgium from 8 to 12 December 2008
- IESBA meets in London from 10 to 12 December 2008

🔗 Quick link

Please refer to the full version of TechWatch 73, available as a PDF on the Institute’s website: www.hkicpa.org.hk/professionaltechnical/techwatch