



TechWatch 76

► Financial reporting

IASCF discussion document of *Review of the Constitution: Identifying Issues for Part 2 of the Review*

The Institute has issued an invitation to comment on this discussion document by 13 March 2009. The document aims to seek comment on the full range of constitutional issues that were not addressed in the first part of the review, published in July 2008. That review did not cover such things as the possible need for emergency due process procedures, funding arrangements and agenda-setting procedures of the IASB.

The trustees of the IASCF plan to conclude the second part of the review in October 2009, with any amendments to the constitution taking effect on or after 1 January 2010. The trustees have invited comments on specific items relating to the objectives and

governance of the IASCF, as well as the trustees of the IASCF, IASB and Standards Advisory Council.

IASB discussion paper on *Preliminary Views on Revenue Recognition in Contracts with Customers*

The Institute has issued an invitation to comment on this discussion paper by 22 May 2009. The goal of the IASB and the U.S. Financial Accounting Standards Board in the discussion paper is to improve the existing guidance in both IFRS and U.S. GAAP by developing a single revenue model that can be applied consistently across the industries.

Applying the principle proposed by the two boards, a company would recognize revenue when it satisfies a performance obligation by transferring goods and services to a customer as contractually agreed. The principle is similar to many existing requirements and the IASB and the FASB expect that many transactions would remain

unaffected by the proposals. The Institute believes that clarifying the principle and applying it consistently to all contracts with customers would improve comparability and the understanding of revenue for users of financial statements.

Institute comments on IASB exposure drafts

i. Exposure draft of Proposed Amendments to IFRS 7 Investments in Debt Instruments

The exposure draft forms part of the IASB's response to the global financial crisis. It proposes additional disclosure requirements for all investments in debt instruments other than those classified as at fair value through profit or loss.

The proposals require information in tabular format about the effect on pre-tax profit or loss as if these instruments were accounted for at fair value and at amortized cost. It also requires a summary of the different measurements of these instruments in tabular format that sets out the measurement as in the statement of financial position, fair value and amortized cost.

The Institute's submission does not support the exposure draft for two main reasons. First, the exposure draft does not address the requests made at the roundtable discussions on the credit crisis for a review of the approach to determine and measure impairment losses on available-for-sale debt instruments. Second, the Institute says the value of the proposed disclosure requirements to users would not justify the considerable cost to prepare the information.

The Institute recommends that the amendments to the standard should be limited to requiring the disclosure of the credit-loss component of any impairment loss recognized for

available-for-sale debt instruments. This will provide information to users, which the Institute says is relevant to the concerns expressed at the round tables.

In the long term, the Institute also says the IASB should add the revision of the recognition and measurement of impairment of available-for-sale debt instruments to its agenda as a separate project.

ii. Exposure draft of *Proposed Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives*

The exposure draft seeks to clarify the application of the amendment to embedded derivatives and would require an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category.

It also requires the assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract.

In addition, the entire hybrid financial instrument must remain in the fair value through profit or loss category, if the fair value of an embedded derivative that would have to be separated cannot be reliably measured. The Institute supports the IASB's proposal to clarify the uncertainty surrounding the interaction between the October 2008 amendments to IAS 39 and IFRIC 9 on the assessment of embedded derivatives. The Institute believes the proposals will provide the needed clarification of IASB's initial intention, resulting in more consistent application when accounting for embedded derivatives.

While the Institute generally does not support retroactive application dates, it agrees that an accelerated implementation of these amendments

is appropriate for the reasons set out by the IASB at BC9.

► Legislation

Conclusion of third consultation of Companies Ordinance Rewrite

On 2 February 2009, the government released conclusions on the third consultation, which was conducted in mid-2008 and covered proposals on share capital, the capital maintenance regime and statutory amalgamation procedure.

The government proposes to adopt the following regarding share capital:

- Hong Kong should change from the current “par value” system for shares to a mandatory no-par value regime. A statutory deeming provision should be introduced to facilitate the migration to no par, and companies should be allowed 24 months to review their arrangements before migration.
- Legislative control over the setting of the issue price of the no-par shares should not be introduced.
- The requirement for authorized capital should be removed, but companies may still choose to specify in their articles of association the maximum number of shares that they may issue.

Recommendations regarding capital maintenance regime include the following:

- The solvency test approach to creditor protection should not be adopted for all forms of distribution.
- Instead of modifying the existing solvency test by adding a balance sheet test as a second limb, the government will examine whether extending it to cover the ability to pay longer-term debts beyond 12 months can enhance the existing cash flow test.
- Some of the complex capital maintenance rules in the Companies

Ordinance – such as reduction of capital, purchase by a company of its own shares and the giving of financial assistance by a company to another party for the acquisition of its own shares – should be streamlined and rationalized.

The government is also proposing that a court-free statutory amalgamation procedure be introduced for the amalgamation of wholly-owned, intra-group companies.

Other updates in TechWatch 76:

- The first professional accountants in business forum in 2009 was held on 10 January and provided practical advice for accountants in small and medium enterprises on credit control issues and bank and government SME loan schemes.
- Following the collapse of Lehman Brothers in September 2008, the Securities and Futures Commission submitted a report to the financial secretary on 31 December 2008. The report identifies specific regulatory issues relevant to the sale of financial products in Hong Kong, including the Lehman minibonds. It also recommends changes for the financial secretary to take into consideration when assessing the current regulatory environment.
- The Companies Registry annual statistics show a slight decrease in the number of new local companies registering in 2008, but an increase in the number of non-Hong Kong companies registering under Part XI of the Companies Ordinance.

Quick link

Please refer to the full version of TechWatch 75 & 76, available as a PDF on the Institute's website: www.hkicpa.org.hk/professionaltechnical/techwatch