



TechWatch 85

The latest standards and technical developments

► Financial reporting

HKFRS insights on the third statement of financial position

HKAS 1 (Revised) *Presentation of Financial Statements* is effective for annual periods beginning on or after 1 January 2009. It requires an entity to present an additional statement of financial position and related notes as at the beginning of the earliest comparative period as part of a complete set of financial statements, if the entity (i) applies an accounting policy retrospectively, (ii) makes a retrospective restatement of items in its financial statements, or (iii) reclassifies items in its financial statements.

This additional statement of financial position would provide a basis for financial statement users to evaluate information about the entity's performance during the period where there has been a change in comparative information.

In determining the presentation of the third statement of financial position, management needs to exercise their professional judgment based on the particular facts and circumstances to decide whether retrospective

restatement or reclassification of items may have material effects on the comparative amounts in the statement of financial position.

Institute comments on IASB exposure draft on Fair Value Measurement

The Institute's submission is supportive of the proposed fair value measurement framework described in the exposure draft.

The Institute agrees with the draft's definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

In the absence of an actual transaction at the measurement date, fair value measurement should assume a hypothetical transaction in the most advantageous market for the asset or liability. In addition, it is believed that, at initial recognition, if the transaction price differs from its fair value, such difference should be recognized in the profit or loss unless an IFRS requires some other treatment.

Nevertheless, the Institute has concern on taking into account

non-performance risk in measuring all liabilities.

► Audit and assurance

Invitation to comment on IAASB consultation papers

(i) *Consultation on Auditing Complex Financial Instruments*

The Institute has issued an invitation to comment on IAASB Consultation Paper on Auditing Complex Financial Instruments, with comments requested by 4 January.

The purpose of this consultation paper is to seek views on a number of matters that require consideration in relation to the IAASB's plans to develop guidance relating to auditing complex financial instruments by revising its extant International Auditing Practice Statement 1012, "Auditing Derivative Financial Instruments."

The IAASB believes that the work that has recently been completed by the U.K. Auditing Practices Board on its PN 23 (Revised) "Auditing Complex Financial Instruments," can be leveraged and intends to use the interim guidance that has been issued by the APB in its entirety as a starting point in revising

IAPS 1012. The AASC will consider adopting the revised IAPS 1012 and replace existing PN 1012 “Auditing Derivative Financial Instruments.”

(ii) Consultation on Assurance on a Greenhouse Gas Statement

The Institute has issued an invitation to comment on IAASB Consultation Paper on Assurance on a Greenhouse Gas Statement, with comments requested by 8 February.

With the increasing attention given to the link between greenhouse gases and climate change, many entities are quantifying their greenhouse gas emissions for internal management purposes, and an increasing number are also preparing a greenhouse gas statement for regulators, legislators, investors or other interested parties. The IAASB’s project seeks to enhance the consistency and quality of performance by practitioners on assurance engagements to report this information.

A working draft of an International Standard on Assurance Engagements developed by the IAASB’s greenhouse gas task force is not an exposure draft. It will continue to be modified in light of comments received on this consultation paper and will be considered for issue by the IAASB as an exposure draft in 2010.

Invitation to comment on exposure draft of PN 740

The Institute has issued an invitation to comment on the exposure draft of PN 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules,” with comments requested by 31 December.

The purpose of the PN 740 is to provide guidance to auditors as to their responsibilities and procedures when an auditor is engaged by a Hong Kong listed issuer to report on continuing connected transactions pursuant to Chapter 14A of the Main Board Listing Rules or Chapter 20 of the GEM Listing

Rules issued by The Stock Exchange of Hong Kong Ltd.

The PN 740 covers:

- The significant issues commonly encountered by the auditor when undertaking the engagement
- The principal matters that should be taken into consideration by the auditor when designing, carrying out and evaluating the outcome of his procedures
- The role of the auditor
- The scope of work done by auditors

This PN 740 has been prepared in consultation with the Hong Kong stock exchange. This draft is issued separately from the Consultation Paper on Proposed Changes to the Connected Transaction Rules issued by the Hong Kong Exchanges and Clearing Ltd. on 2 October.

► **Restructuring and insolvency**

Consultation on corporate rescue proposals

As part of the response to the recent global financial crisis, the Hong Kong government is consulting on the introduction of a corporate rescue procedure, based on the 2001 proposals for provisional supervision.

A consultation document on Review of Corporate Rescue Procedure Legislative Proposals was released on 29 October. The legislative proposals aim to provide a statutory grace period for companies with long-term viability but which face short-term financial difficulty, so that they can restructure their business or debts, or seek a capital injection to turn themselves around.

The consultation period will last for three months, ending on 28 January, and the proposals will be reviewed by the Institute’s restructuring and insolvency faculty. To submit your views, please email, under the heading “Corporate Rescue Proposals” to rif@hkicpa.org.hk by 18 December.

► **Taxation**

A question was raised recently at the Legislative Council in relation to Section 39E of the Inland Revenue Ordinance, which covers allowances for capital expenditure on leased machinery and plant, and the implications of the Inland Revenue Department’s Departmental Interpretation and Practice Notes No.15 for machinery and plant used in mainland processing operations.

The question and a written reply by Secretary for Financial Services and the Treasury K.C. Chan can be found at www.ird.gov.hk/eng/ppr/archives/09102102.htm.

Other updates in TechWatch 85:

- The IFAC Professional Accountants in Business Committee met in New York between 7 and 9 October. The meeting discussed the findings of an IFAC board review of service delivery to PAIBs.
- Last month, the Institute held a seminar for auditors and those responsible for preparing Hong Kong listed issuers’ financial statements and annual reports, including those in charge of listed issuers’ financial oversight.
- The next regular annual meeting between the Institute and the Commissioner of Inland Revenue will be held in February to discuss matters of common interest or concern in relation to tax practice and procedure.
- The IAASB next meets this month and the International Ethics Standards Board for Accountants next meets in February.

🔗 **Quick link**

Please refer to the full version of TechWatch 85, available as a PDF on the Institute’s website: www.hkicpa.org.hk.