

# Professional *and* Technical



*News at a glance*



Hong Kong  
Society of  
Accountants  
香港會計師公會

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This is the Seventh Issue of TechWatch, a publication designed to alert members to topics and issues that impact on accountants and their working environment. We welcome your comments and feedback. Comments and suggestions on TechWatch should be addressed to Ms. Winnie Cheung, Senior Director, Professional & Technical Development, Hong Kong Society of Accountants (email: <commentletters@hksa.org.hk>).

This issue (and all back issues) is available online at the Society's website <<http://www.hksa.org.hk/professionalttechnical/>> under "TechWatch (Members only)".

If you would prefer to receive future issues electronically via email or in hard copy format, you may register or alter your option online at the Members Only section of HKSA web page under "Personal Profile - Publications Preferences". If you have any questions, please contact Karen Moy, Administrative Officer, Professional & Technical Department at <karen\_moy@hksa.org.hk> or tel: 2287 7089.

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## Visit The Revamped HKSA Professional & Technical Mini Homepage

The HKSA has recently renovated the former "professional services" section of the HKSA Website. You may view the renamed "Professional & Technical" mini homepage through the new link <<http://www.hksa.org.hk/professionalttechnical/>>.

This is the first part of our revamp of the professional and technical section of the website aiming mainly to restructure and rearrange the long list of items previously included in the old "professional services" section in a more easily accessible manner.

The HKSA Professional & Technical mini homepage now contains links to the index pages in respect of the following new areas:

Accounting and Financial Reporting: <<http://www.hksa.org.hk/professionalttechnical/accounting/>>

Audit and Assurance: <<http://www.hksa.org.hk/professionalttechnical/assurance/>>

Ethics: <<http://www.hksa.org.hk/professionalttechnical/ethics/>>

Corporate Governance: <<http://www.hksa.org.hk/professionalttechnical/corporategov/>>

Professional Risk Management: <<http://www.hksa.org.hk/professionalttechnical/riskmanagement/index.php>>

# TECHWATCH

WebTrust: <<http://www.webtrust.org.hk/>>

IIN: <<http://www.hksa.org.hk/professionaltechnical/iin/index.php>>

The new format allows us to take you directly to current and up-to-date information on the above major subject areas. For example, you can now gain access directly to the FASC's invitation to comment on the recently issued IASB's exposure draft of proposed Improvements to International Accounting Standards and other accounting standards documents by clicking the Accounting and Financial Reporting section of the Professional & Technical mini homepage. Try <<http://www.hksa.org.hk/professionaltechnical/accounting/>>.

Our next step will be to expand the structure to cover other specific areas such as taxation, insolvency, and IT, and to continue developing the contents within the HKSA professional and technical mini homepage.

Members' feedback and input are most welcomed. Please write to <[commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk)>.

## Accounting & Financial Reporting

### **IASB Issues An Exposure Draft Proposal To Revise IAS 32 And IAS 39 On Financial Instruments**

The International Accounting Standards Board (IASB) has published for public comment an exposure draft to revise IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

The objective of the proposed amendments is to improve the existing requirements in IAS 32 and IAS 39 and to reduce some of the complexity by clarifying and adding guidance, eliminating internal inconsistencies, and incorporating into the Standards key elements of existing IAS Interpretations and IAS 39 implementation guidance.

Under the HKSA's due process for setting accounting standards, the HKSA has issued an Invitation to Comment on the IASB's exposure

draft with comments requested by 30 September 2002. The Invitation to Comment has been posted on the HKSA's website at <<http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/>>. Paper version of the exposure draft will be distributed before the end of July.

Following from the IASB's final approved Standard, the FASC intends to recommend the adoption of new Hong Kong Statements of Standard Accounting Practice (SSAP) on financial instruments so that the SSAPs maintain conformity with the IASB's standards. The FASC does not intend to issue a specific Hong Kong exposure draft on the matters covered in the IASB's exposure draft.

### **FASC Meeting - 12 June 2002**

The FASC met on 12 June 2002 and discussed the following items:

- ✓ Business Combinations
- ✓ Investment Property
- ✓ Exposure Draft of a proposed revision to SSAP 12, Income Taxes
- ✓ Exposure Draft of a proposed limited revision to SSAP 34, Employee Benefits
- ✓ Interpretations of Hong Kong SSAPs
- ✓ True and fair view

A copy of the meeting summary is attached to this issue of TechWatch. The meeting summary has also been posted on the HKSA website at <<http://www.hksa.org.hk/professionaltechnical/accounting/fascupdate/>>.

## Audit & Assurance

### **New Reporting Requirement On Compliance With The OFTA Billing And Metering Integrity Scheme**

The Office of the Telecommunications Authority (OFTA) has recently finalised standards for the Billing and Metering Integrity Scheme (BMIS) which will become effective from 1 January 2003. They are HKTA 3104 "Quality assurance manual for BMIS" and HKTA 3105 "Requirements on the

assurance, reporting and monitoring procedures for the BMIS". The HKSA has taken part in the consultation process conducted by OFTA in the development of the two documents.

The purpose of the BMIS is to ensure that the billing and metering systems of licensed public telecommunications operators are accurate and comply with a set of standards and requirements. Upon implementation of the BMIS, operators are required to comply with the billing and metering integrity standards specified by OFTA and to fulfill the requirements as stipulated in HKTA 3104 and HKTA 3105. Operators are also required to observe the "Code of Practice related to the implementation and compliance of BMIS" and the "Implementation Plan of BMIS". All of these documents are available on the OFTA's website at [http://www.ofta.gov.hk/frameset/industry\\_index\\_eng.html](http://www.ofta.gov.hk/frameset/industry_index_eng.html).

The HKSA will develop a Practice Note in the near future to provide guidance to auditors on engagements to report on compliance by operators with the BMIS.

### **ED Of New Trust Services Principles And Criteria - WebTrust And SysTrust Released**

WebTrust practitioners in Hong Kong were recently notified of the release of the Exposure Draft "Trust Services Principles and Criteria" by AICPA/CICA for public comment.

The SysTrust and WebTrust Principles and Criteria have been merged to create a common set of Principles and Criteria, now labeled as the Trust Services Principles and Criteria. The Principles included in the Exposure Draft are Security, Availability, Processing Integrity, Online Privacy and Confidentiality and they address these issues with both e-commerce and non-e-commerce systems. Each Principle is complemented by an enhanced framework of Criteria to be used by CPAs and CAs in their examination of businesses against the various subject areas.

The HKSA will prepare a submission on the Exposure Draft and has requested WebTrust practitioners in Hong Kong to forward their comments on the Exposure Draft to the HKSA by 2 August 2002. If you have any comments on the

Exposure Draft, please forward them to the HKSA for the attention of Mr. Stephen Chan, DDAS (ref.: ED/TSPC) on or before 2 August 2002.

The Exposure Draft is available at the HKSA website [http://www.webtrust.org.hk/whatsnew/ed\\_princ\\_criteria.pdf](http://www.webtrust.org.hk/whatsnew/ed_princ_criteria.pdf).

### **IAASB June Meeting Decision Summary**

The International Auditing and Assurance Standards Board (IAASB) held its first meeting on 10 - 14 June 2002.

At this meeting, International Standard on Auditing (ISA) 545 "Auditing fair value measurements and disclosures" was approved for issuance as a final statement. The HKSA plans to issue an exposure draft of the equivalent SAS for consultation in due course.

The meeting also discussed the projects of Audit Risk Model, Moderate Assurance and Quality Control. These projects will be further discussed at the next meeting of the IAASB scheduled for December this year. The HKSA is monitoring the progress of these projects closely as they will be adopted in Hong Kong under the ISA Convergence Programme.

A copy of the Meeting Decision Summary can be accessed on the IAASB's website at <http://www.ifac.org/IAASB/IAASBDecisionsummary0602.doc>.

### **IFAC Board Takes Actions To Improve Accountability Of Accountants**

Following its meeting in Madrid in early July, the IFAC Board has issued Press Releases announcing decisions that have been taken to advance a number of public interest initiatives including:

- The formal establishment of the Forum of Firms (FoF) for firms that conduct or plan to conduct transnational audits. Membership in the FoF is open to firms that conduct or wish to conduct transnational audits and that are committed to the FoF Quality Standard. The FoF Quality Standard requires compliance with IFAC's International Standards on Auditing (ISAs) and Code of Ethics and participation in international quality assurance and discipline programmes.

There are currently 23 provisional members of the FoF, including the largest accounting firms. They will be admitted to full membership upon demonstrating adherence to the FoF Quality Standard through satisfactory completion of the quality assurance requirement.

- In an effort to make ISAs more widely available to the world's accountants, thus assisting them in providing high quality work, all final pronouncements issued by the IAASB will be made available free of charge through the IFAC website <http://www.ifac.org> effective 1 January 2003.

These Press Releases are available on the above IFAC website under "Latest News".

## Corporate Restructuring & Insolvency

### **Approach Made To The Official Receiver To Expedite The Release Of Liquidators**

It has been brought to the Society's attention that some practitioners have been experiencing difficulties in obtaining their release as liquidators in cases of compulsory liquidation. This has been a problem in relation to cases allocated under the tendering arrangements, which are generally small cases that are expected to be wrapped up relatively quickly. The delay appears to have resulted from doubts expressed by the Court as to the responsibility for preparing a report on the liquidators' accounts when a liquidator applies for release pursuant to Rule 189, and is likely to have come about because the Rules were drawn up at a time when the Official Receiver, rather than private sector practitioners, was serving as the liquidator in most insolvency cases.

As part of the Society's regular communications with the Official Receiver on matters of practical and procedural concern, we have requested that the matter be taken up with the Court with a view to resolving the uncertainties, to ensure that all insolvency cases can be completed as expeditiously as possible. The letter can be viewed at <http://www.hksa.org.hk/professionaltechnical/submissions/index.php>.

## Legislation & Government Initiatives

### **New Policies On (i) Company Name Registration and (ii) Prosecutions of Filing Offences**

The Companies Registry has recently issued two External Circulars on the following:

- (i) Registration of Company Names (No.1/2002); and
- (ii) Prosecutions of Filing Offences under the Companies Ordinance (No. 2/2002).

#### Registration of Company Names

The Companies Registry has reviewed its policy of company name registration consequential upon receiving legal advice that the wording of section 5(1) of the Companies Ordinance does not allow a company name to have a combination of English letters and Chinese characters.

As explained in the recently issued Companies Registry External Circular No. 1/2002, with immediate effect, the current practice of permitting the registration of a company name with a combination of English letters and Chinese characters will cease and no further applications for the registration of such company names will be accepted by the Registry.

#### Prosecutions of Filing Offences under the Companies Ordinance

The Companies Registry has indicated that, subsequent to the implementation of its prosecution policy in April 1998, which involves sending warning letters for non-compliance with the requirement to file annual returns and other reporting requirements under the Companies Ordinance, the improvement in the compliance rate regarding the filing of annual returns achieved has not been commensurate with the time-consuming procedures and level of resources involved. The Registry has accordingly decided to review its prosecution policy procedures with a view to making them less labour intensive and to reduce the amount of paper and storage space required.

As explained in the Companies Registry External Circular No. 2/2002, with effect from 1 August

2002, the Companies Registry will no longer routinely issue warning letters to companies and their officers which fail to file their annual returns or to comply with other reporting obligations under the Companies Ordinance on a timely basis. The Registry will however continue to prosecute companies, especially public listed companies, which are in breach of their filing obligations or which have filed relevant documents beyond the statutory time limit.

Please click <http://www.info.gov.hk/cr/new/index.htm> or visit the Companies Registry website for the full version of the Companies Registry External Circulars Nos. 1/2002 and 2/2002.

### **Positive Outcome To Lobbying On The Drug Trafficking And Organised Crimes (Amendment) Bill 2000**

After a prolonged debate and persistent lobbying by the Society's Expert Panel on Legal Matters (formerly the Legal Committee), coupled with the efforts of the profession's LegCo functional constituency representative, the Administration have announced the withdrawal of the certain controversial proposals in the Drug Trafficking and Organised Crimes (Amendment) Bill.

The Bill had proposed to lower the threshold in relation to the evidence required for convicting a person of failing to report suspicions that certain proceeds were the proceeds of crime and for dealing in the proceeds of crime. The amendments would have meant that a conviction could be obtained if the prosecution could show that reasonable grounds for suspicion existed, without having to prove that the defendant actually suspected anything.

The Society had argued all along that the changes would mean that people who were simply naïve or unwary, who genuinely did not suspect anything, and who therefore would be innocent under the existing law, may in future be liable to conviction of a serious criminal offence. The danger would be likely to be even greater for professionals, such as accountants, given that a court might expect a higher level of knowledge

and awareness from professionals. The Society's concerns were shared by a number of other professional bodies.

In the light of the strong objections subsequently also expressed in LegCo during discussions on very similar provisions in the United Nations (Anti-terrorism Measures) Bill ("UN Bill"), the Administration indicated that they would withdraw the proposed amendments and revert to the original wording of the Drug Trafficking (Recovery of Proceeds) and the Organised and Serious Crimes Ordinances, and that, in line with this, the wording in the UN Bill would also be changed by means of Committee Stage Amendments.

### **Society Invited To Comment On Proposals For Revised Land Titles Bill**

Hong Kong has operated a system of deeds registration under the Land Registration Ordinance since 1844. Under this system the register of deeds itself does not give proof of who the owner is but directs an enquirer to the documents that need to be examined in order to determine who the owner of a property is and what other interests exist in the property. The need for solicitors to carry out checks on old documents adds to the costs of property transactions. The Land Titles Bill is intended to introduce a title registration system whereby registration of a person as the owner would confer on them full and absolute title to the property concerned, subject only to any matters registered on the title register, certain overriding interests and rectification by the Court in certain very limited circumstances.

Consultation on the Bill has been continuing for several years and the Bill has been subject to a number of redrafts. HKSA, amongst other professional bodies, has made submissions at different stages of the Bill's existence. The Society some time ago received assurances from the Administration in relation to its original concern regarding the access to historical information necessary for audit purposes. We had also expressed the view that the level of charges, e.g. to perform title searches under the new system,

should not be such as to add a significant burden to the cost of an audit. It would appear that the legal profession has voiced various concerns on more recent redrafts of the Bill.

In light of the comments received on the draft Bill, the Administration has decided to make a number of substantial changes to it. For example, the original proposal for a "midnight conversion" to repeal the Land Registration Ordinance, leaving the title registration system as the only form of land registration, without any transitional period, has been dropped in favour of a process of gradual conversion under the revised Bill.

The Land Registrar has now passed a briefing paper on the Bill, outlining its present status and outstanding matters, to the Society for information and comment. He has indicated that the Administration intends to complete the further redrafting in time to publish the revised Bill around November 2002.

#### **FATF Consultation Paper On Money Laundering Covers Roles of Accountants and Auditors**

The Financial Action Task Force (FATF) On Money Laundering has recently issued a consultation paper, "Review of the FATF Forty Recommendations".

The Forty Recommendations, which cover such areas as customer due diligence, suspicious transaction reporting and regulation and supervision, currently apply primarily to financial institutions. However, the consultation paper proposes various options to extend the scope of the Recommendations to several types of non-financial businesses, including company and trust service providers, accountants and auditors and investment advisors. The paper suggests that professional service providers and non-financial businesses are playing an increasing role in money laundering schemes.

The proposals could have significant implications for the profession and several of the Society's committees and panels will be examining the Consultation Paper with a view to our making a submission before the deadline of 31 August 2002. The full document can be found at the FATF

website at [http://www.fatf-gafi.org/40RecsReview\\_en.htm](http://www.fatf-gafi.org/40RecsReview_en.htm). It should be read in conjunction with the Forty Recommendations, which are also available at the FATF website at [http://www.fatf-gafi.org/40Recs\\_en.htm](http://www.fatf-gafi.org/40Recs_en.htm), although as indicated above, the wording of these is currently targeted at financial institutions.

If members have any comments on the Consultation Paper, they should send these to the Society's Expert Panel on Legal Matters by 10 August 2002, c/o John Tang, Assistant Director (Business & Practice).

## **Taxation**

### **Minutes Of The Annual Meeting Between HKSA And The Commissioner Of Inland Revenue**

As part of the Society's regular dialogue with the Administration to facilitate tax compliance, improve procedural arrangements and to clarify areas of interpretation, representatives of the Society met with the Commissioner of Inland Revenue (CIR) and members of her staff in February 2002 to discuss practical and procedural matters in relation to the operation of the tax system.

The minutes of the meeting were prepared by the Inland Revenue Department, and the Society's representatives at the meeting provide comments on the initial draft. In their final version, the minutes have been reproduced in full in a Tax Bulletin (TaxB 12) issued in July 2002, which may be viewed at the Society's website at <http://www.hksa.org.hk/professionalttechnical/> (under "Technical Bulletins"). Separately a letter has been sent to all member practices drawing their particular attention to the item raised by IRD (Agenda Item B1 of the Minutes) in relation to the findings from field audit cases.

### **Views Invited On 2003 Budget Submission**

As in previous years the Society's Taxation Committee will be preparing proposals for the Financial Secretary (FS)'s next Budget Speech to

be submitted to the FS later in the year. The submission traditionally focuses on the revenue rather than the expenditure side of the Budget and contains proposals on such things as tax incentives to stimulate the economy and possible revenue-raising measures.

This year the Taxation Committee would like to invite comments and suggestions from members on possible tax-related proposals or issues that may be included in the HKSA 2003 Budget submission. Any suggestions should be sent to the Taxation Committee, c/o John Tang, Assistant Director (Business & Practice) by 23 August 2002.

## Financial Management

### **New IFAC Study Focuses On Competences Of Accountants In Business And Their Value To Organisations**

IFAC's Financial and Management Accounting Committee (FMAC) has recently issued a study report entitled "Competency Profiles for Management Accounting Practice and Practitioners", which presents a global, best

practice perspective on management accounting.

The Study highlights the competences related to best practice in management accounting and the competences required of those taking key roles in the field of management. It includes an Executive Summary in the form of an Overview Chapter (pp1-5) and a separate Users' Guide.

The target users who can benefit from the Study and the benchmark competency standards it illustrates include:

- CFOs and Financial Controllers in organisations;
- Human Resources Directors or Specialists;
- Management Accountants;
- Professional Association Directors or Managers;
- Educators with a focus on management accounting or management development.

The Study may be accessed or downloaded from IFAC website at [www.ifac.org/store](http://www.ifac.org/store). Before downloading the Study, it is necessary to register on-line with IFAC to become a registered user. There are no restrictions to being a registered user of IFAC pronouncements and there is no charge for downloading the document.

### Comment Key Dates

Date	Subject
2 August 2002	ED of New Trust Services Principles and Criteria - WebTrust and SysTrust, which can be found at the HKSA website at <a href="http://www.webtrust.org.hk/whatsnew/ed_princ_criteria.pdf">http://www.webtrust.org.hk/whatsnew/ed_princ_criteria.pdf</a> . (AICPA/CICA deadline: 15 August 2002)
10 August 2002	FATF consultation paper "Review of the FATF Forty Recommendations", which can be found at the FATF website at <a href="http://www.fatf-gafi.org/40RecsReview_en.htm">http://www.fatf-gafi.org/40RecsReview_en.htm</a> .
23 August 2002	Comments and suggestions on possible tax-related proposals or issues to be included in the HKSA 2003 Budget submission.
31 August 2002	Hong Kong Invitation to Comment on the IASB's Exposure Draft Improvements to International Accounting Standards, which has been posted on the HKSA website at <a href="http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/edimprovements.pdf">http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/edimprovements.pdf</a> . (IASB deadline: 16 September 2002)
30 September 2002	Hong Kong Invitation to comment on IASB's Exposure Draft Amendments to IAS 32 <i>Financial Instruments: Disclosure and Presentation</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement</i> , which has been posted on the IASB website at <a href="http://www.iasb.org.uk/docs/ias32-39/02-32_39-ed.pdf">http://www.iasb.org.uk/docs/ias32-39/02-32_39-ed.pdf</a> . (IASB deadline: 14 October 2002)
	Please send comments to <a href="mailto:commentletters@hksa.org.hk">commentletters@hksa.org.hk</a>

## Members Ask...

A member asks two questions in relation to accounting for contributions receivable in the financial statements of an MPF Scheme:

- Q1.** An Approved Trustee may operate a bank account for holding MPF contributions received pending allocation to individual investments accounts. Should such a bank account appear on the financial statements of the trustee and/or MPF Scheme and, if so, how should it be presented?
- Q2.** In practice, approved trustees may find it difficult to make a reliable estimation of the contributions that are due at the end of an accounting period but for which payment is not required since the relevant incomes of some employees or self-employed persons may fluctuate from one contribution period to another. Further, due to the possibility of default, it may be difficult for trustees to make a reliable estimate of the contributions receivable and future recoverability. Based on the reason that these amounts might not be capable of reliable estimation, would it be appropriate for the financial statements of an MPF Scheme to exclude such amounts from contributions receivable?

**A1.** *Contributions received by Trustee pending allocation to members' investment accounts*

Contributions held temporarily in a separate bank account and administered by an Approved Trustee, pending allocation into members' investment accounts, clearly do not form part of the Trustee's assets and accordingly should not be included in the Trustee's financial statements. Users of the financial statements could be misled into thinking that the total assets shown would be available to meet the liabilities of the Trustee whereas, in fact, the bank account in question (assuming it has legally enforceable trust status) is not the asset of the Trustee and therefore, in the event of

liquidation, should not be available for settlement of the Trustee's own liabilities. On the basis that the Trustee neither owns nor has a beneficial interest in assets that are held on trust, under Statement of Standard Accounting Practice (SSAP) 1, "Presentation of Financial Statements", a Trustee's balance sheet would not include such assets.

Contributions which can be clearly identified as scheme assets (for example, cheques made payable to certain MPF schemes) and which are held in a MPF scheme's bank account pending investment should be presented as cash in the financial statements of the MPF scheme. In those instances where contributions cannot be identified as scheme assets (for example, cheques made payable to the trustee only without the scheme name) and which are held temporarily in the trustee's client account should be presented as a receivable in the financial statements of the MPF scheme.

**A2.** *Accounting for contributions receivable in MPF Scheme's financial statements*

The employer has an obligation to pass both the employer's own contributions and those deducted from employees to the Trustee within a specified period. As such, an accounting obligation exists and contributions payable should be shown in the financial statements of an employer and contributions receivable in the financial statements of the Scheme.

As it concerns the estimation of an amount receivable in respect of contributions, the basic principles of accrual accounting apply. The ultimate recovery of contributions receivable should be capable of estimation. This would be based on the historical fact pattern established by the employer in making the regular monthly payments. The fact that the precise amount is not known is not a

valid argument for omitting to accrue the receivable. The receivable will be estimated based on recent amounts received and any difference in the actual amount received will be adjusted for in the current period.

In the case of a financial year ending 31 December, the majority of MPF contributions in respect of the month of December are likely to have been received by the trustee in January. In terms of the principles of accrual accounting, it

would be highly inappropriate for these contributions to be omitted from financial statements for the period ending 31 December.

The fact that the exact amount may not be known until after the end of the accounting period is irrelevant as it is possible for those responsible for the financial statements to make reasonable estimates of items which exist at the accounting date but which are not measurable precisely at that time.

Please note that the answers above are given in accordance with the HKSA Staff Policy on Handling Technical Queries, which is available for reference on the HKSA website at <http://www.hksa.org.hk/professionaltechnical/policy/techqs.pdf>

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### Financial Accounting Standards Committee

#### Meeting Summary - June 2002

The Society's Financial Accounting Standards Committee (Committee) met on 12 June 2002 and discussed the following items:

- ✓ Business Combinations
- ✓ Investment Property
- ✓ Exposure Draft of a proposed revision to SSAP 12, Income Taxes
- ✓ Exposure Draft of a proposed limited revision to SSAP 34, Employee Benefits
- ✓ Interpretations of Hong Kong SSAPs
- ✓ True and fair view

#### Business Combinations

The Committee discussed transitional issues surrounding a proposed revision of SSAP 30 consequent on the IASB's impending revision of IAS 22.

Goodwill that arose before SSAP 30 became effective, and which was taken to reserves as a matter of accounting treatment (written off), is required under SSAP 30 to remain as a separately analysed and reported component of equity. This treatment is not permitted under IAS 22 and, as a result, the Hong Kong transitional provision will be less straightforward than that expected to be adopted in the pending IFRS.

The Committee considered that the underlying principle in transition to a revised Business Combinations SSAP should be that the Hong Kong equivalent of the new IFRS should apply on a basis that is converged with the IFRS, and that goodwill be subject to only one accounting treatment going forward (currently there are at least 2 treatments in Hong Kong, depending on when the goodwill arose).

The Committee considered:

- Whether goodwill recognised as an asset on the balance sheet should, at the point of transition, be measured at its carrying amount (that is, original gross carrying amount less accumulated amortisation less accumulated impairment losses); and
- Whether there is a rebuttable presumption that goodwill previously taken to reserves, and which prior to the application of the revised Statement was reported as a separate component of equity, can be identified with a cash-generating unit and consequently should be reinstated as an asset on the balance sheet, and whether, in rare cases where the presumption is rebutted, goodwill should remain adjusted against shareholders' interests and no longer reported as a separate component of equity.

The Committee tentatively agreed that:

- Goodwill not identifiable to a cash-generating unit should be treated as being fully impaired.
- The Invitation to Comment, issued concurrently with the IASB's exposure draft revision to IAS 22, should seek comment on whether either goodwill presently reported in equity should be reinstated on the balance sheet as an asset at either the carrying amount current at the point of transition (which excludes the impact of amortisation) or the amount that would have been the carrying

amount had the goodwill been previously carried as an asset and amortised under the requirements currently applying in SSAP 30.

- In respect of goodwill (including negative goodwill) currently reported as assets (liabilities) on Hong Kong SSAP-based balance sheets, it would appear appropriate for that goodwill to be subject to the same transitional provision likely to be proposed by the IASB.

#### Investment Property

The Committee considered a proposed revision of SSAP 13, Investment Property, based on the requirements of the equivalent International Accounting Standard, IAS 40.

The earlier introduction into Hong Kong of investment property accounting requirements converged with IAS 40 had effectively been prevented by the requirement under IAS 17, Leases, for lessees to treat leases of land and building as operating leases when title does not pass at the expiry of the lease term.

In its improvements exposure draft, the IASB proposes a more accommodating approach to categorising leases of land and building and, as a consequence, the Committee considers that it is now possible to consider revising SSAP 13 so that Hong Kong's accounting standards on investment property and leases become converged with the corresponding International Accounting Standards.

The Committee noted the following significant differences between SSAP 13 and IAS 40:

- IAS 40 permits an initial policy election between a fair value model (gains and losses between balance sheet dates are recognised in the income statement) and a cost model. In the case of an investment property held under lease, however, the IASB proposes in its improvements exposure draft that the choice be between the fair value model and applying the standard on leases. SSAP 13 requires, with limited exception, a revaluation model (gains and losses typically recognised in a revaluation reserve).
- SSAP 13 permits an exemption from measuring investment property at open market value when an enterprise's total investment property portfolio is below a specified threshold. IAS 40 does not provide for such an exemption.
- SSAP 13 requires valuations to be undertaken by a professionally qualified valuer, which is encouraged, but not required, under IAS 40.
- SSAP 13 requires an individual enterprise within a group to treat investment property on the same basis as reported by the group. IAS 40 requires an individual enterprise to apply the Standard independently.

The Committee agreed to review a proposed exposure draft revision of SSAP 13 prior to its next meeting. In the Invitation to Comment to accompany the exposure draft, the Committee agreed that views would be sought primarily on issues arising from where SSAP 13 presently differs from IAS 40.

#### Income Taxes

The 9 comment letters received on the exposure draft of a proposed SSAP "Income taxes" were considered in detail. The Committee agreed a number of changes to the proposed SSAP, which includes:

- Clarifying that the method used in the examples for calculating the tax bases of an asset or a liability may not be the only method that can be used;

- Adding further examples to illustrate the calculation of the tax base of an asset or liability; and
- Deleting certain guidance in a box, which is considered to be a repetition of the guidance in the body of the proposed SSAP.

In reviewing a revised proposed SSAP which incorporates the above changes, the Committee decided to issue separate Hong Kong interpretations based on SIC-21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, and SIC-25, Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders, rather than incorporating the conclusions in the proposed SSAP. The Committee considered this treatment is more consistent with the Society's policy to converge SSAPs with IASs. Subject to this, the Committee agreed to recommend the revised proposed SSAP to Council for approval to be issued as a final Standard for accounting periods beginning on or after 1 January 2003. In the light of the fact that the issue of the proposed SSAP will involve a number of consequential changes to the cross- references in other SSAPs, the Committee decided to deal with these changes in the forthcoming exposure draft on convergence.

#### Exposure Draft of a limited revision to SSAP 34, Employee Benefits

The Committee noted that the International Accounting Standards Board had recently amended IAS 19 following the exposure draft of a proposed limited revision issued for comment in March 2002. The Committee had published the IASB's exposure draft concurrently with an Invitation to Comment. No comments were received and the Committee agreed to recommend that SSAP 34 be amended to maintain convergence with IAS 19.

#### Interpretations of Hong Kong SSAPs

Following a report from the Urgent Issues and Interpretations Sub-Committee consideration of comment letters received on Draft Interpretations 14 - 18, the Committee agreed to propose the following changes to Draft Interpretation 15:

- Reinstate the SIC-28 guidance on determining the fair value of a large or small block of equity instruments; and
- Include a footnote to cross-refer to the guidance on determining the fair value of an equity instrument under IAS 39, Financial Instruments, Recognition and Measurement.

The Committee agreed to recommend to Council that these Interpretations be issued as final with effect from the following dates:

- Interpretation 14, Evaluating the Substance of Transaction Involving the Legal Form of a Lease (based on SIC-27), proposed to become effective on 30 June 2002.
- Interpretation 15, Business Combinations - "Date of Exchange" and Fair Value of Equity Instruments (based on SIC-28) proposed to become effective for acquisitions given initial accounting recognition on or after 30 June 2002.
- Interpretation 16, Disclosure - Service Concession Arrangements (based on SIC-29) proposed to become effective on 30 June 2002.
- Interpretation 17, Revenue - Barter Transactions Involving Advertising Services (based on SIC-31) proposed to become effective on 30 June 2002.
- Interpretation 18, Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests (based on SIC-33) proposed to become effective for annual financial periods beginning on or after 1 July 2002.

### True and fair view

In relation to the project on improvements, the Committee considered an issue regarding the use of the term "fair presentation" (which is the term used in IAS 1) as opposed to "true and fair view" in SSAP 1. Having considered that:

1. Paragraph 46 of the IASB Framework states that both expressions are equivalent; and
2. The standard opinion paragraph in ISA 700 (on which the HK SAS 600 is based) uses both "true and fair view" and "fair presentation" and considers both expressions to be equivalent but both expressions must be followed by the words "in accordance with" the identified financial reporting framework;

the Committee concluded that using the term "true and fair view" in SSAP 1 would not result in a difference between SSAP 1 and IAS 1. In view of this and given that "true and fair view" is the term used in the Companies Ordinance, the Committee considered that the term "true and fair view" should continue to be used in SSAP 1.

### Date of Next Meeting

The Committee's next meeting will be held on 10 July 2002.

This meeting summary is provided for the information and convenience of those who wish to follow the Committee's deliberations. All conclusions reported are tentative and may be changed at future meetings.

The IASB publishes summaries of its meetings and these can be found on the IASB's website at <http://www.iasb.org.uk>.

The Committee welcomes comments on its technical agenda. Please e-mail us at [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk).

### **Upcoming CPD Programme For HKSA Members**

<b>Date</b>	<b>Topic</b>
06 Aug Tue	The Effective Way of Cost Cutting in Logistics and Supply Chain Management
12 Aug Mon	Accounting Practice for Telecom Industry
14 Aug Wed	如何執行中港兩地的裁決及追回應收帳款

Source: HKSA's Education and Training Department (E & T)

For more information, please visit HKSA's website at <<http://www.hksa.org.hk/membership/cpd/index.php>> or contact the Education & Training Department on 2287 7058.

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