

FASC Meeting Summary – April 2002

The Society's Financial Accounting Standards Committee (FASC) met on 17 April 2002.

As part of the Society's due process for setting accounting standards and the policy to converge Hong Kong Statements of Standard Accounting Practice (SSAP) with the standards issued by the International Accounting Standards Board (IASB), the FASC also considered progress made by the IASB at its meeting on 19 – 22 March 2002.

Income Taxes

The Committee received 9 comment letters on the exposure draft of a proposed SSAP "Income taxes".

The Committee identified and considered the following two fundamental issues arising from the comments received:

- The inclusion in the proposed SSAP of guidance notes; and
- The quality of those guidance notes.

In issuing the exposure draft for comment in late 2001, the Committee was mindful that the wording of IAS 12 detracted from its understandability. Guidance was included into the boxes within the body of the exposure draft solely to provide greater clarity on the requirements proposed. No difference in the application of IAS 12 was proposed in the exposure draft. Given the policy of convergence and the comments received on the guidance notes, the Committee considered whether the additional guidance should be included within the body of the proposed SSAP or as an appendix. The Committee agreed to retain the additional guidance within the body of the proposed SSAP on this occasion, as it believes that this would make the proposed SSAP more comprehensible.

In dealing with the second issue, the Committee agreed to refer the comment letters received on the exposure draft to the sub-committee that was tasked with the drafting of the proposed SSAP for further consideration and for the addition of further guidance.

Business Combinations

The Committee agreed that the secretariat would prepare a paper for the Committee's consideration at the next meeting, tracking the IASB's progress to date and identifying the key issues, which include:

- The transition in Hong Kong between SSAP 30 and a SSAP based on the IASB's impending revision of IAS 22;
- The proposed non-amortisation of goodwill that has an indefinite life and the application of an impairment model.

The Committee noted that SSAP 30 came into effect in Hong Kong recently. Although changes to the treatment of goodwill are presently being considered, consistent with the Foreword to Statements of Standard Accounting Practice, Interpretations and Accounting Guidelines, the requirements under SSAP 30 will continue to apply in Hong Kong in its present form until a revised SSAP becomes effective.

First-time Application of International Financial Reporting Standards (IFRS)

The Committee noted that a Hong Kong SSAP based on the proposed IFRS would be of particular relevance to entities based in China that might in future prepare financial statements in accordance with Hong Kong SSAPs and agreed to request comments for submission to the IASB once the IASB's ED is issued, which is expected to be before the end of June.

Share-Based Payments

The Committee briefly considered progress made to date by the IASB and noted that one important issue concerning the IASB's project concerns whether appropriate and reliable information on volatility would be available in Hong Kong (and other jurisdictions).

Insurance contracts

The FASC noted the latest IASB project timetable indicates that an exposure draft is due to be issued in the 4th quarter of 2002. The FASC agreed to refer the IASB's progress to date and the Draft Statement of Principles prepared by the former IASC Insurance Steering Committee to the Society's Expert Panel on Insurance for detailed analysis and comment and request the Expert Panel to report back to the FASC.

Convergence of Hong Kong SSAPs with IASB Standards

The Committee briefly discussed the convergence of Hong Kong's accounting standards with the IASB's Standards, in particular the differences at present between the respective standards on leases and investment properties. The Committee expressed its desire in principle to recommend the adoption in Hong Kong of an investment property standard equivalent to IAS 40. All leases of property where title did not pass at the end of the lease term are to be treated as operating leases under IAS 17 and therefore could not be accounted for as investment property under IAS 40 even though all other criteria specified in IAS 40 might be satisfied. The Committee noted that the IASB had signalled its intention to address the issue as part of its impending improvements proposed to IAS 17 and agreed to consider the matter further once the IASB had published its proposals.

Date of Next Meeting

The Committee's next meeting will be held on 15 May 2002.

This meeting summary is provided for the information and convenience of those who wish to follow the FASC'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 FASC welcomes comments on its technical agenda. Please e-mail us at commentletters@hksa.org.hk.