

Financial Accounting Standards Committee

Meeting summary – October 2004

The Institute's Financial Accounting Standards Committee (Committee) met on 12 October 2004.

Present at the Committee's meeting were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung, Nigel Reid, Edward K.F. Chow, Choy Chung-foo (represented by Mr. Vingle Yuen), Raphael Ding, Tommy Fung, Philip Hilliard, Saleem Razvi, Tommy Tam, Stephen Taylor, Tom Wu, Ms. Rebecca Chan, Ms. Susanna Lau, Mrs. Catherine Morley, Mr. Simon Riley (HKICPA Technical Director, Financial Reporting) and Ms. Elsa Ho (HKICPA Assistant Director, Financial Reporting).

The Committee welcomed Mr. Saleem Razvi, representing the Hong Kong Association of Banks, to his first meeting of the Committee.

The Committee discussed the following items:

- ✓ Financial Instruments – Transitional arrangements
- ✓ Convergence Project
- ✓ Accounting Bulletin on Deemed Disposals
- ✓ First Time Application of HKFRS

Financial Instruments – Transitional arrangements

The Committee received comments on the draft revised transitional provisions on HKAS 32 and HKAS 39. The Committee agreed to allow further time to consider and discuss these comments.

The Committee discussed an issue as to whether a transaction that was not previously allowed under SSAPs to be recognised as a hedge (e.g. a highly probable forecast transaction) could be recognised as a hedge under HKAS 39 from 1 January 2005 as if the entity had entered into the transaction on 1 January 2005. Whilst the tentative view of the Committee was that the entity should be prohibited to restate or redesignate transactions as being hedges in prior periods, the Committee agreed to consider this further at a later time. However, the entity should be allowed to adjust its balance sheet presentation in respect of the hedge as from 1 January 2005 and account for it as such as from that day.

The Committee intends to finalise the revised transitional provisions before it next meets. Once the revised transitional provisions have been finalised and approved, a revised version of HKAS 32 and HKAS 39 would be made available on the HKICPA website and in the Institute's Members' Handbook.

Convergence Project

The Committee received copies of proposed HKAS 12, 14, 18 and 37. The Committee agreed: -

- To add footnotes to HKAS 12 paragraphs 7 & 8 similar to those found in IAS 12, which specify the alternative analyses of calculating tax base of dividends receivable from a subsidiary and of accrued fines and penalties that are not deductible for tax purposes.
- Not to include in HKAS 37 transitional provisions similar to those contained in IAS 37 since SSAP 28 is already converged with IAS 37 in all material respects.
- To retain in HKAS 37 the additional Hong Kong examples in SSAP 28 but to identify these examples in the appendix on comparison with IAS.
- Similar to SSAP 26, in the HKAS 14 appendix, to retain a reference to "Hong Kong" (instead of the "UK" as in IAS 14) as the entity's home region and other parts of the People's Republic of China (instead of other European Union countries as in IAS 14) as segments in one of the illustrative segment disclosures.

Subject to the above changes, the Committee agreed to recommend Council to approve these HKAS with effect for annual accounting periods beginning or after 1 January 2005. Once these HKAS have been approved, they would be made available on the HKICPA website and would be published as an update to the HKICPA Members' Handbooks.

The Committee agreed to consider comment letters received on ED/Convergence at its next meeting with a view to finalising the Standards for issue before end of this year.

The Committee noted that an issue had been raised in a comment letter on ED/ Convergence as regards the inconsistent treatments for changes in the fair value of investment properties in IAS 40 (recognised in income) and the changes in the fair value of available for sale investments in IAS 39 (recognised in reserves). Since this inconsistency was not explained anywhere in IAS, the Committee agreed to write to the IASB requesting an explanation in this regard.

Accounting Bulletin on Deemed Disposals

The Committee recognised that a withdrawal of the accounting bulletin on deemed disposals would probably be needed as the accounting bulletin is in conflict with HKFRS 3. The Committee agreed to add this onto the agenda for consideration at its next meeting.

First time application of HKFRS

The Committee discussed an issue as to whether the financial information included in investment circulars should comply with HKFRS 1. The Committee noted that Stock Exchange had recently raised some questions on the financial information included in the investment circulars of PRC entities, in particular concerning the reconciliation to the GAAP previously applied (as required by HKFRS 1). The Committee considered that, if the financial information included in investment circulars purported to be in compliance with HKFRS and that information is the first set of financial statements prepared in accordance with HKFRS, the related entities should be required to comply with all the disclosure requirements under HKFRS 1, including the reconciliation. However, in relation to those PRC entities that had not prepared annual financial statements covering the reporting group under a previous GAAP, no reconciliation would be needed.

Date of Next Meeting

The Committee agreed to hold its next meeting on 9 November 2004.

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

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

The Committee welcomes comments on its technical agenda. Please e-mail us at: commentletters@hki CPA.org.hk.