



Financial Reporting Standards Committee
Meeting summary – February 2005

The Institute's Financial Reporting Standards Committee (Committee) met on 16 February 2005.

Members of the Committee present were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung (Deputy Chairman), Nigel Reid (Deputy Chairman) (Rep. by Mr. Paul Hebditch), Chan Lok Sang, Choy Chung-foo (represented by Mr. Vingle Yuen), Raphael Ding, Tommy Fung, Philip Hilliard, Stephen Taylor, Tom Wu (Rep. by Mr. Jacky Tsang), Ms. Rebecca Chan (Rep. by Ms. Olivia Cheung), Ms. Susanna Lau and Mrs. Catherine Morley.

Secretariat staff present were: Mr. Stephen Chan (Director (Standard Setting)) and Ms. Elsa Ho (Assistant Director (Standard Setting)).

The Committee discussed the following items:

1. Terms of Reference - Financial Reporting Standards Committee and Financial Reporting Interpretations Sub-Committee
2. Exposure Draft of SME Financial Reporting Framework (SME-FRF) and Financial Reporting Standard (SME-FRS)
3. Length of Lease Term in respect of Hong Kong Land Leases
4. Meeting with Hong Kong Institute of Surveyors
5. Adoption of Amendment to IAS 39 *Transitional and Initial Recognition of Financial Assets and Financial Liabilities*
6. Guidance to replace SSAP 27 *Accounting for Group Reconstructions* - Progress report
7. Inconsistency between Deferred Tax on Revaluation Surpluses and Deficits on Freehold Investment Properties and Long-term Leasehold Properties
8. Annual Accounting Update 2005
9. Submission to LegCo re Proposed Legislative Changes to the Definition of Subsidiary

1. Terms of Reference - Financial Reporting Standards Committee and Financial Reporting Interpretations Sub-Committee

The Chairman reported that there were discussions within the Institute about the future role of the Committee. He pointed out that Council of the Institute sees the need to expand the role of the Committee in the liaison between the local financial community and the IASB. Specifically, there were proposals that the Committee should, in future, hold regular public forums to receive the concerns raised and problems identified by the local financial community in applying Hong Kong Accounting Standards. At the forums, the Committee should also take the opportunity to inform the local financial community of the latest proposals and project agenda of the IASB and ask them for comments. All the concerns raised, problems identified and comments received should be brought to the attention of the IASB promptly, where appropriate.

The Committee noted a draft discussion paper on the role of national standard setters and their relationships with the IASB that was obtained from the last World Standard Setters meeting.

Members generally saw the need to invest more time in liaising with different interest groups and to participate more in the project working groups set up by the IASB. The Committee decided to continue its debate when considering the proposed revised terms of reference at the next meeting.

The Committee directed the secretariat to prepare a proposed revised terms of reference of the Committee for discussion at the next meeting.

2. Exposure Draft of SME Financial Reporting Framework (SME-FRF) and Financial Reporting Standard (SME-FRS)

The Committee received a proposed ED of proposed SME Financial Reporting Framework (FRF) and Financial Reporting Standard (FRS) that was developed by the GAAP for Small

Businesses Working Group and reviewed by the Auditing and Assurance Standards Committee.

Members were generally supportive of the development of a financial reporting framework for SMEs. The Committee endorsed the submission of the proposed ED to Council for approval for issuance as an ED for consultation until the end of April 2005.

3. Length of Lease Term in respect of Hong Kong Land Leases

Members provided feedback to the Committee on the issue concerning the length of lease term in respect of Hong Kong land leases as previously addressed in a discussion paper. They all supported the view that the length of lease term should follow strictly the legal status of the leases given that the lease term is defined under HKAS 17 to include only "any further terms for which the lessee has the option to continue".

In respect of the issue as to whether very long leases (such as 999 years lease) should be considered as freehold in substance and accounted for as such, it was considered that it would be better to keep in view the development in other jurisdictions.

On the basis that there was a consistent view on the determination of the length of lease term in respect of Hong Kong land leases, the Committee agreed to develop a local Interpretation based on the discussion paper.

4. Meeting with Hong Kong Institute of Surveyors

The Committee received a summary of the information gathered and the follow up actions arising from the meeting with the Hong Kong Institute of Surveyors (HKIS) on 4 February 2005.

The Chairman highlighted some of the main points of discussion at the meeting. In particular, he pointed out that the HKIS had recently issued a Valuation Standard that has taken effect from 1 January 2005. However, the HKIS would allow a grace period of 6 months to June 2005 for its application. This would therefore provide an opportunity for the Committee to comment on the Valuation Standard before it becomes effective. Within that Valuation Standard, there is guidance on how the apportionment of the valuation between the land and building components should be carried out. However, the HKIS advised that the guidance was included because of their interpretation of the requirement of the Accounting Standard even though they were of the view that the apportionment would only be hypothetical and would be difficult in practice. The HKIS agreed to elaborate this view on the guidance in the explanatory material to be issued later this year.

Members were requested to consider the Valuation Standard and provide comments to the secretariat. The Committee agreed to refer the Valuation Standard to the Auditing and Assurance Standards Committee for consideration and to ask them to consider whether there is a need to include any local guidance, including a reference to the Valuation Standard, in the Auditing Standard on reliance on the work of experts.

5. Adoption of Amendment to IAS 39 *Transitional and Initial Recognition of Financial Assets and Financial Liabilities*

The Committee noted the comments that there is a need to adopt the Amendment to IAS 39 *Financial Instruments: Recognition and Measurement: Transitional and Initial Recognition of Financial Assets and Financial Liabilities* despite the fact that the transitional provisions in IAS 39 are not the same as those in HKAS 39.

The Committee considered a copy of a draft Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement: Transitional and Initial Recognition of Financial Assets and Financial Liabilities*. The draft Amendment was based on the equivalent Amendment to IAS 39 but included an additional concession to allow entities to adopt the amendment prospectively for those transactions entered into on or after the beginning of the accounting periods in which

HKAS 39 is initially applied. After consideration, the Committee decided not to include the additional concession in the light of its convergence policy.

The Committee agreed to recommend Council to approve the issue of the Amendment to HKAS 39 with effect for accounting periods beginning on or after 1 January 2005.

6. Guidance to replace SSAP 27 Accounting for Group Reconstructions - Progress report

The Working Group on SSAP 27 replacement reported to the Committee the progress on the development of a draft Accounting Guideline on merger accounting to replace SSAP 27 *Accounting for Group Reconstructions* on its withdrawal. At its last meeting, the Working Group had discussed a draft Accounting Guideline and agreed on a number of principles. The agreed principles include:

- (i) there would only be one criterion for the use of merger accounting, that is merger accounting could only be used in a business combination involving entities and businesses under common control; and
- (ii) merger accounting should only be used within the track record periods in which there is common control. Business combinations outside the periods of common control should be accounted for using the acquisition method of accounting.

The Working Group also agreed to research further on a number of areas, including:

- (i) whether a business combination that takes place subsequent to the balance sheet date could be considered as an adjusting event;
- (ii) whether a company bringing in a business from another company could be accounted for using merger accounting; and
- (iii) whether the imposition of a new holding company on top of two existing entities should be considered as a business combination.

The results of the research might give rise to further guidance being included in the draft Accounting Guideline.

The Working Group would consider a revised draft that would take into account of the above and other comments from members on the first draft with a view to finalizing a draft for circulating to the Committee for consideration in early March.

7. Inconsistency between Deferred Tax on Revaluation Surpluses and Deficits on Freehold Investment Properties and Long-term Leasehold Properties

The Committee noted a letter from a preparer raising concern about an apparent inconsistency in the treatment of deferred taxation on revaluation surpluses and deficits between freehold investment properties and long leasehold investment properties.

The Committee directed the secretariat to write to the preparer acknowledging the concern raised, informing them that the Committee is aware that the IASB is considering the issue and enquiring about whether he had received any response directly from IASB on the issue .

8. Annual Accounting Update 2005

The Committee noted the alternative dates and venues for the annual accounting update conference for 2005 as proposed by the Institute's Education and Training Department.

After consideration, the Committee tentatively decided to hold two conferences on 7 May 2005 and 3 September 2005 respectively even though the Committee would prefer to hold the second conference in late September/early October, subject to the availability of a suitable venue.

The Committee considered the topics to be covered in the first conference. The Chairman suggested a broad outline of the programme of the first conference as follows:

- (i) The explanatory memorandum that sets out all the significant changes resulting from the convergence project
- (ii) Standards application issues and different accounting treatments
- (iii) The role of the Committee
- (iv) The IASB due process and the involvement of HKICPA in international standard setting process
- (v) The proposed SME-FRF and SME-FRS

The Committee generally agreed with the above suggestions but considered that the issue of different accounting treatments should be presented in a proper context in order to avoid any potential misunderstandings.

The Committee noted that there were discussions within the Institute as to how the CPD seminars should be run in the future. The Committee directed the secretariat to find out more information on this.

9. Submission to LegCo re Proposed Legislative Changes to the Definition of Subsidiary

The Committee noted the submission dated 12 January 2005 to the Bills Committee regarding the proposed legislative amendment to the Companies Ordinance on the definition of subsidiary. A copy of the submission can be obtained from the [Institute website](#).

Date of Next Meeting

The Committee agreed to hold its next meeting on 9 March 2005.

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.

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