



Financial Reporting Standards Committee
Meeting summary – February 2006

The Institute's Financial Reporting Standards Committee (Committee) met on 15 February 2006.

Members of the Committee present were: Messrs. Paul F. Winkelmann (Chairman), Raphael Ding (Deputy Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Tommy Fung, Paul Hebditch, Li Kwok Tso, Saleem Razvi, Tom Wu (Rep. by Jacky Tsang), Ms. Olivia Cheung, Ms. Mabel Cheung, Ms. Susanna Lau, Ms. Fanny Li and Mrs. Catherine Morley.

Secretariat staff present were: Mrs. Patricia McBride (Director, Standard Setting) and Ms. Elsa Ho (Assistant Director, Standard Setting)

The Committee discussed the following items:

1. Application of S141D to a subsidiary of an overseas company
2. Proposed AG 6 *Preparation of Historical Financial Information for Inclusion in Investment Circulars*
3. Proposed AG 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*
4. ED 26 – Improvements to International Public Sector Accounting Standards
5. The recent visit of Sir David Tweedie

1. **Application of S141D to a subsidiary of an overseas company**

The Committee considered an issue regarding the application of s141D of the Companies Ordinance to a subsidiary of an overseas company as it would impact on whether those companies can apply the Financial Reporting Framework and Financial Reporting Standard for Small and Medium-sized Entities (SME-FRF and SME-FRS).

After considering the provisions in s141D, the Committee came to the conclusion that a subsidiary of an overseas company can take advantage of the benefits under s141D and, as a result, can apply the SME-FRF and SME-FRS. However, in the case of any doubt, preparers should be advised to take legal advice.

The Committee noted that there would be an anomaly between a subsidiary of an overseas company and a subsidiary of a Hong Kong incorporated company to which s141D does not apply.

2. **Proposed AG 6 *Preparation of Historical Financial Information for Inclusion in Investment Circulars***

The Committee considered the proposed AG 6 *Preparation of Historical Financial Information for Inclusion in Investment Circulars* that was referred by the Accountants' Reporting Task Force (ARTF) for its endorsement for passing it on to the Stock Exchange for consideration of consequential Listing Rule changes.

After deliberation, the Committee decided to endorse it to be passed to the Stock Exchange for consideration. However, the Committee decided that this proposed AG should be brought back to the Committee for consideration once it has been reviewed and commented by the Stock Exchange.

3. **Proposed AG 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars**

The Committee considered the proposed AG 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* that was referred by the ARTF for its endorsement for issue as a final accounting guideline. Members had a few comments on the proposed AG. Subject to the clearance of certain comments, the Committee endorsed the submission of proposed AG 7 to Council for approval to be issued as a final Accounting Guideline.

4. **ED 26 – Improvements to International Public Sector Accounting Standards**

The Committee noted that a letter was received from the Treasury requesting the Institute to consider its comments on Exposure Draft ED 26 – Improvements to International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants (IFAC IPSASB). However, in the light of the time constraints, the Committee agreed that it would be difficult for the Institute to endorse its comments without consultation. Accordingly, the Committee directed the secretariat to contact the Treasury suggesting that they submit their comments directly to the IFAC IPSASB.

The Committee then considered the issue of how the Institute should move forward on accounting standards for the public sector. The Committee was informed that the draft consultation paper on future standard setting in Hong Kong would ask whether the Institute should address the issue of public sector accounting. In the case where there is a general support for the Institute to consider public sector accounting issues, the next step would be to explore the issues in public sector accounting and to identify a committee within the Institute to deal with this subject. Given that there are many not-for-profit organisations in Hong Kong for which public sector Standards might be appropriate, especially those that are governed by the Ordinances other than the Companies Ordinance, there would be a need to involve those organisations within the consultation process.

5. **The recent visit of Sir David Tweedie**

The Chairman informed the Committee of the activities during the recent visit of Sir David Tweedie, Chairman of the IASB, including a meeting with regulators, a press conference and an internal meeting within the Institute. In those meetings, a number of issues were raised with Sir David, including:

- Leasehold properties
- The inability of auditors to give a dual opinion on compliance with HKFRS and IFRS in the light of the differences in transitional provisions
- Related party disclosures concerning state owned enterprises
- Progress of the Memorandum of Understanding of the role of national standard setters and their relationship with the IASB
- Progress of the reporting performance project
- Approach used by the IASB to deal with consequential amendments to Standards
- Concern over the proposed IFRS for Small and Medium-sized Entities
- Deferred tax on Hong Kong investment properties

The Chairman then informed the Committee that a follow-up letter summarising the above issues would be sent to Sir David so that he could take them forward to the IASB, when appropriate.

Date of Next Meeting

The Committee agreed to hold its next meeting on 8 March 2006.

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.

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

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