



**Financial Reporting Standards Committee**  
**Meeting summary – April 2007**

The Institute's Financial Reporting Standards Committee (Committee) met on 11 April 2007.

Members of the Committee present were: Paul F. Winkelmann (Chairman), Clement Chan (Deputy Chairman), Raphael Ding (Deputy Chairman), Li Kwok Tso, Catherine Morley, Estella Ng, Stephen Taylor and Eymon Tsang.

Secretariat staff present were: Patricia McBride, Steve Ong, Elaine Chan and Winnie Chan.

The Committee discussed the following items:

1. Work plan for 2007
2. Proposal for the formation of Working Groups
3. Draft submission on IASB Discussion Paper *Fair Value Measurements*
4. Draft submission on IASB Exposure Draft of proposed Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary*
5. Proposed revised HKAS 23 *Borrowing Costs*
6. Report on Meeting with IASB Conceptual Framework project team members and National Standard Setters Meeting
7. Policy on providing Interpretations or Rulings on financial reporting issues

**1. Work plan for 2007**

The Committee received the progress report of its work for the first quarter of 2007.

The Chairman reported that during the Standard-setting Oversight Board (SSOB) meeting held on 20 March 2007, he explained the difficulties in attracting CEOs and CFOs to attend financial reporting forums. The SSOB suggested that the Institute could consider holding a joint event with bodies such as the Stock Exchange and the Institute of Directors so as to leverage on their contacts with CEOs and CFOs. In this regard, the Chairman of the SSOB who represents the Stock Exchange and the representative of the Institute of Directors who sits on the SSOB agreed to provide support when necessary. The Chairman of the SSOB also offered to provide the Stock Exchange's auditorium for such forums.

In respect of the Consultation Paper on the Rewrite of the Companies Ordinance – Accounting and Auditing Provisions, the Committee noted that comments have been requested from a number of Committees and the Standard Setting Department will be collating comments for inclusion in the Institute's submission.

**2. Proposal for the formation of Working Groups**

The Committee considered and agreed the proposed guidance for the composition of Working Groups as follows:

- Working Groups are formed to undertake specific tasks.
- The convener of a Working Group must be a member of the Committee and would act as the liaison point between the Committee and the Working Group.
- Members of a Working Group can be members or non-members of the Committee.

- Members of a Working Group must have expert knowledge on the area of responsibility of the Working Group and be prepared to participate in the work of the Working Group.
- The size of a Working Group should normally be confined to 4-6 members (including the convenor).

The Committee agreed to form two Working Groups and nominated the convenors for the two projects in the Committee's work plan as follows:

- Mr. Ian Farrar – To review the impact of not adopting HKFRS 1 on full compliance with IFRSs.
- Mrs. Catherine Morley – To consider the ICAEW technical release on distributable profits.

### 3. **Draft submission on IASB Discussion Paper *Fair Value Measurements***

The Committee received a draft submission prepared by the secretariat on the IASB Discussion Paper. The Committee also noted that a comment letter was received from the Stock Exchange.

The Committee agreed to note in the draft submission that comments have been provided on the basis that the discussion paper is to provide guidance on how to measure the fair value instead of when to do so. There are cases where the Institute does not agree with the requirement for fair value measurement. While the proposals in the Discussion Paper are generally appropriate for financial instruments, which is what SFAS 157 addresses, it may not be appropriate for use under IFRSs in all cases since IFRSs use fair value measurement in a wider context than US GAAP.

The Committee agreed that a revised draft submission, after soliciting the views of members, should be circulated to the Committee for approval.

### 4. **Draft submission on IASB Exposure Draft of proposed Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary***

The Committee noted that the consultation period of the Invitation to Comment had ended and no response was received. The Committee considered a draft submission prepared by the secretariat.

The Committee generally supported allowing a parent to use a deemed cost to measure its investment in subsidiaries when it first adopts IFRSs. A member raised concerns about the proposed measures of the deemed cost and the appropriateness of the proposed simplified approach to determining the pre-acquisition accumulated profits of a subsidiary. The Committee therefore agreed to include the following recommendations in the draft submission to the IASB:

- To allow parent companies to regard the carrying amount of the investment based on the previous GAAP to be the deemed cost on transition to IFRS; and
- To allow the use of the pre-acquisition accumulated profits determined under the previous GAAP to be the pre-acquisition accumulated profits on transition to IFRSs.

In addition, the Committee agreed to recommend to the IASB that it extend the application of the proposals to the cost of investment in associates and jointly controlled entities.

The Committee directed the secretariat to revise the draft submission for consideration and approval by the Committee by circulation.

**5. Proposed revised HKAS 23 Borrowing Costs**

The Committee considered a draft revised HKAS 23 *Borrowing Costs* that is based on IASB in the revised IAS 23 issued in March 2007.

It was noted that, in the Institute's submission on the proposed revised IAS 23 *Borrowing Costs*, the Institute expressed concern about an inconsistency between the transitional provision and the effective date paragraph. The Committee noted that the Institute's concern has been addressed in the revised standard. There was an amendment in the effective date paragraph whereby an entity is allowed to early adopt the standard from any date before the effective date, which is consistent with the treatment suggested in the transitional provision.

Accordingly, the Committee approved the draft to be submitted to Council for approval to be issued as a final standard with effect for annual periods beginning on or after 1 January 2009 (with earlier application encouraged)

**6. Report on Meeting with IASB Conceptual Framework project team members and National Standard Setters (NSS) Meeting**

The Committee received a report from the secretariat on the meeting with the IASB Conceptual Framework project team members, the National Standard Setters Meeting and a dinner hosted by the Institute for participants of the NSS meeting.

The Committee noted that the NSS meeting discussed forward-looking issues aimed at improving financial reporting and ways in which co-operation between the IASB and NSS could be strengthened going forward. The Chairman gave a verbal report summarising the discussions at the NSS Meeting, including the proposed IFRS for SMEs, equity and liabilities, pensions, impairment, common control, regulated industries, conceptual framework and revenue recognition.

In respect of the proposed IFRS for SMEs, the Chairman reported that there was a general view amongst participants at the NSS meeting that the proposed IFRS for SMEs is a financial reporting standard for private companies rather than for SMEs. He added that a private company financial reporting standard would work well with the Companies Ordinance where there is a distinction between public and private companies. The Committee considered a proposal for a two-tier financial reporting framework with three sets of financial reporting standards, i.e. IFRSs for public and public interest companies, IFRS for SMEs for private companies and a local GAAP for small private companies. The Committee generally supported the proposal and directed the secretariat to add to the work plan to recommend to the IASB that it issue a private company financial reporting standard instead of a standard for SMEs. There was also a suggestion to discuss the proposal with users of financial statements, such as the Hong Kong Association of Banks and the Inland Revenue Department, so that their views can be taken into account in preparing the Institute's submission on the proposed IFRS for SMEs.

In respect of the topic of common control, the Chairman suggested that the Institute should consider developing a paper for consideration at the NSS Meeting since group restructuring under common control is a very important topic for Hong Kong and Mainland, while it is less important in many jurisdictions represented by NSS participants.

**7. Policy on providing Interpretations or Rulings on financial reporting issues**

The Committee noted that subject to the removal of the sentence relating to the seeking of a second opinion, the SSOB has endorsed the Policy on providing Interpretations or Rulings on financial reporting issues for submission to Council for approval.

**Date of Next Meeting**

The Committee agreed to hold its next meeting on 13 June 2007.

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@hkcipa.org.hk](mailto:commentletters@hkcipa.org.hk).

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