



Financial Reporting Standards Committee
Meeting summary – September 2007

The Institute's Financial Reporting Standards Committee (Committee) met on 12 September 2007.

Members of the Committee present were: Paul F. Winkelmann (Chairman), Clement Chan (Deputy Chairman), Raphael Ding (Deputy Chairman), Colin Chau, Ian Farrar, James Fawls, Wilson Fung, Paul Hebditch, Ronald Kung, Susanna Lau, Li Kwok Tso, William Lim, Catherine Morley, Estella Ng, Eymon Tsang, Roland Wong and Cecilia Yam.

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

The Committee discussed the following items:

1. Draft submission on IASB Exposure Draft of a proposed IFRS for SMEs
2. IASB Exposure Draft of proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – *Exposures Qualifying for Hedge Accounting*
3. Proposed revised HKAS 1 *Presentation of Financial Statements*
4. Accounting treatment of Mainland Land Appreciation Tax
5. HKEx Consultation Paper on Periodic Financial Reporting
6. Sub-Committee and Project Working Group – Progress report
7. Members' Handbook Volume II Update project

1. Draft submission on IASB Exposure Draft of a proposed IFRS for SMEs

The Committee received comment letters from the following parties on the IASB Exposure Draft of a proposed *IFRS for SMEs*:

- ACCA Hong Kong
- Hong Kong General Chamber of Commerce
- Inland Revenue Department
- The DTC Association
- The Hong Kong Association of Banks
- The Society of Chinese Accountants & Auditors

The Committee noted that there is a strong view from the community that the Institute should retain the current Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard. The Committee also noted that the Institute's Small and Medium Practitioners Committee also held the same view.

The Committee considered the draft submission and agreed on a number of principles, being that the proposed IFRS for SMEs:

- is too complex for very small entities, while further simplification is required for medium-sized entities.
- is intended to be applied by entities that do not have public accountability. The IASB should therefore consider retitling the proposed standard to a name such as "IFRS for Private Entities" to better reflect its intended use.
- should not contain mandatory fallback to full IFRSs.

The Committee also agreed that the submission should focus on the application to medium-sized entities and include a very strong message in the covering letter stating that

the proposed IFRS for SMEs is not suitable for small entities in Hong Kong.

The Committee agreed that the proposed IFRS for SMEs should not have mandatory fallback to full IFRSs. The Committee also agreed in principle that topics that are not relevant to typical SMEs, e.g. share-based payments, should be eliminated rather than cross-referenced to full IFRSs. Where an entity encounters a transaction that is not specifically addressed in the proposed IFRS for SMEs, it should determine its accounting treatment by applying the principles of the standard by analogy or by using the pervasive principles following the hierarchy set out in the proposed IFRS for SMEs.

However, the Committee did not reach an agreement on whether the proposed IFRS for SMEs should have cross-references to accounting policy options available in IFRSs. Some members supported the idea as it can provide options for preparers without increasing the volume of the proposed IFRS for SMEs. Others, however, considered that the proposed IFRS for SMEs should have no cross-reference to IFRSs since it is meant to be a standalone document. Accounting options should be incorporated in the main body of the proposed standard where they are considered necessary.

The Committee requested the Secretariat to do further study on options cross-referencing and agreed that a revised draft submission, after soliciting the views of members, should be considered at the October 2007 meeting.

2. IASB Exposure Draft of proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting

The Committee considered a draft Invitation to Comment on the IASB Exposure Draft of proposed Amendments to IAS 39 – *Exposures Qualifying for Hedge Accounting* which was recently issued by the IASB for public consultation.

Subject to the minor wording changes, the Committee approved the issuance of the Invitation to Comment for public consultation until 3 December 2007.

3. Proposed revised HKAS 1 Presentation of Financial Statements

The Committee noted that the IASB had recently issued revised IAS 1 *Presentation of Financial Statements*.

It was noted that in the Institute's submission on the proposed revised IAS 1 *Presentation of Financial Statements*, the Institute generally agreed with the proposed amendments except the inclusion of a statement of financial position as at the beginning of the previous period as a necessary part of a complete set of financial statements. The Institute also opposed the proposal to change the titles of the income statement, balance sheet and cash flow statement in standards and interpretations.

The Committee noted that in the final version of the revised IAS 1, the IASB made a concession that only when the financial statements have been affected by retrospective restatement or a reclassification, a statement of financial position as at the beginning of the earliest comparative period should be presented as part of a complete set of financial statements.

The Committee however noted that the IASB reaffirmed its view that the proposed change of the titles of financial statements better reflects the function of each financial statements and an entity could choose to use other titles in its financial report.

In the light of the convergence policy, the Committee agreed to recommend Council to approve the issue of the Hong Kong equivalent of the revised IAS 1 as a final standard

with effect for annual periods beginning on or after 1 January 2009 (with earlier application encouraged) without modification. Council subsequently approved the issue of the Hong Kong equivalent of the revised IAS 1 at its September 2007 meeting.

4. Accounting treatment of Mainland Land Appreciation Tax

The Committee noted that the Working Group, which was tasked to identify the problems relating to any divergent practices in the accounting treatment of Mainland land appreciation tax (LAT), held a meeting on 13 July 2007.

The Working Group noted that according to its understanding, LAT is calculated based on net taxable income, being the proceeds received by the taxpayer on the transfer of real estate, less the cost of real estate and other identified deductible items relating to the transactions. The Working Group also noted that according to paragraph 2 of HKAS 12, income taxes include all domestic and foreign taxes that are based on taxable profits. Example B following paragraph 52 illustrates the calculation of deferred tax on profit arising from the sale of an individual asset, which is a form of capital gains tax similar in nature to LAT. The Working Group therefore concluded that LAT is a form of income tax and is within the scope of HKAS 12 *Income Taxes*.

The Committee agreed with the conclusion formed by the Working Group.

5. HKEx Consultation Paper on Periodic Financial Reporting

The Committee noted that Hong Kong Exchange and Clearing Limited (HKEx) had issued a Consultation Paper on Periodic Financial Reporting on 31 August 2007 for comments by 5 November 2007.

Noting that comments would be sought from various Committees of the Institute and the Corporate Finance Committee would be taking the lead to coordinate the Institute's submission, members were requested to pass their comment to the secretariat before 15 October 2007.

6. Sub-Committee and Project Working Group – Progress report

a. SME-FRF Sub-Committee

The Sub-Committee was requested to follow up the development of the guidance on the preparation and presentation of consolidated financial statements for SME-FRS.

b. Working Group on Full Compliance with IFRSs

It was noted that the secretariat would perform further work on the impact of the differences in the transitional provisions in HKFRSs and IFRSs.

7. Members' Handbook Volume II Update project

It was noted that a member firm had kindly seconded a technical staff to the Institute from late June to August to undertake the project to consolidate into the main text of HKFRSs amendments resulting from other newly issued or revised HKFRSs.

It was noted that due to the issuance of the revised HKAS 1 *Presentation of Financial Statements*, further resources would be required for the update of the consequential amendments to HKFRSs.

Date of Next Meeting

The Committee agreed to hold its next meeting on 10 October 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@hki CPA.org.hk.

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