



Financial Reporting Standards Committee
Meeting summary – February 2008

The Institute's Financial Reporting Standards Committee (Committee) met on 5 February 2008.

Members of the Committee present were: Paul F. Winkelmann (Chairman), Clement Chan (Deputy Chairman), Raphael Ding (Deputy Chairman), Chan Tak Shing, Ian Farrar, Wilson Fung, Paul Hebditch, Caron Hughes, Susanna Lau, Li Kwok Tso, William Lim, Gladie Lui, Catherine Morley, Eymon Tsang and Roland Wong.

Secretariat staff present were: Patricia McBride, Steve Ong, Selene Ho, Florence Wong, Winnie Chan and Ben Lo.

The Committee discussed the following items:

1. Proposed dates of the meetings in year 2008
2. Revised proposed work plan for 2008
3. IASB Exposure Draft of proposed amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
4. IASB Exposure Draft of proposed amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2 Group and Treasury Share Transactions* – Group Cash-Settled Share-based Payment Transactions
5. Project on full compliance with IFRSs
6. Proposed revised HKFRS 3 *Business Combinations* and HKAS 27 *Consolidated and Separate Financial Statements*
7. Proposed amendments to HKFRS 2 *Share-based Payment* – Vesting Conditions and Cancellations
8. Private Company Reporting Framework
9. Adoption of the Glossary of Terms

1. Proposed dates of the meetings in year 2008

The Committee agreed to meet on the following dates in 2008:

5 February
4 March
1 April
6 May
3 June
8 July
2 September
2 October
7 November
2 December

2. Revised proposed work plan for 2008

The Committee endorsed the revised work plan for 2008 which had taken into account comments made by the Committee at its last meeting.

The Committee will continue its regular work on maintaining international convergence with pronouncements issued by the International Accounting Standards Board (IASB) and providing input to the international standard setting process. It has also planned to

increase its outreach to members through forums and luncheons.

Another focus for the year will be developing a consultation paper addressing financial reporting standards by private companies (i.e. the 2-tier/3 tier framework issue). The Committee will also be developing revisions to the existing SME Financial Reporting Standard to cover the application to groups.

3. **IASB Exposure Draft of proposed amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate**

The Committee noted that the consultation period of the Invitation to Comment had ended and no response was received. The Committee considered that a submission should be prepared to show our appreciation to the changes made by the IASB that are consistent with the Institute's previous submission.

The Committee generally supported the Exposure Draft. A member raised concerns about the proposed requirement for an investor who accounts for its investment in the subsidiary, jointly controlled entity or associate at cost to test the related investment for impairment when it receives a dividend. The Committee agreed to request the IASB to consider revising this to require that an impairment test should only be required if, having received a dividend, there is an indication that an impairment exists.

[Post meeting note: The Institute's submission was forwarded to the IASB on 6 March 2008 and can be viewed at:

<http://www.hkicpa.org.hk/professionaltechnical/accounting/exposuredraft/2008/submission.pdf>

4. **IASB Exposure Draft of proposed amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2 Group and Treasury Share Transactions* – Group Cash-Settled Share-based Payment Transactions**

The Committee agreed that no submission would be prepared for the Exposure Draft given no response was received from the business community so far and the issues are not expected to significantly affect Hong Kong.

5. **Project on full compliance with IFRSs**

The Committee noted the informal views of IASB staff that it would be difficult to request IASB to develop exemptions in IFRS 1 *First-time Adoption of International Financial Reporting Standards* to enable jurisdictions such as Hong Kong, which adopted IFRSs word-for-word as their national GAAP but used transitional arrangements which are different from IFRS 1, to be in a position to claim compliance with both IFRSs and their national GAAP without considering the effects of the differences in transitional arrangements. Accordingly, practitioners and preparers would be required to consider the effects of the differences in transitional arrangements before asserting compliance with both HKFRSs and IFRSs (dual compliance).

It was agreed by the Committee that the Institute's concerns should continue to be raised with the IASB.

6. Proposed revised HKFRS 3 *Business Combinations* and HKAS 27 *Consolidated and Separate Financial Statements*

The Committee noted that the IASB had recently issued revised IFRS 3 *Business Combination* and IAS 27 *Consolidated and Separate Financial Statements*.

The Committee endorsed the adoption of the proposed Standards and agreed to recommend Council to approve the issue of the Hong Kong equivalent of the revised HKFRS 3 and HKAS 27 as final standards with effect for annual periods beginning on or after 1 July 2009 without modification. Earlier application is permitted provided that both Standards are applied together; and the revised HKFRS 3 is not applied in an accounting period beginning before 30 June 2007.

7. Proposed amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The Committee noted that the IASB had recently issued amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*.

The Committee endorsed the adoption of the proposed amendment and agreed to recommend Council to approve the issue of the Hong Kong equivalent of the amendments to HKFRS 2 with effect for annual periods beginning on or after 1 January 2009 (with earlier application permitted) without modification.

8. Private Company Reporting Framework

The majority of Committee members supported a 3-tier framework where private companies are free to choose full HKFRSs, Large Private GAAP or HKICPA SME-FRF according to the size of the companies. It was believed that a 3-tier framework would make the financial reporting simpler and more user-friendly for private companies. It would be more appropriate to leave it to the preparers of the financial statements to decide what accounting framework is suitable for them. It was also noted that there is a general trend for other jurisdictions to adopt a 3-tier financial reporting framework.

The Committee noted Mr. Raphael Ding's dissenting view.

The Committee requested the secretariat to draft a consultation paper on a three-tier reporting framework for consideration by the Committee.

9. Adoption of the Glossary of Terms

The Committee endorsed the adoption of Glossary of Terms, which is adopted from the extant IFRS Glossary of Terms, for inclusion in Volume II of the HKICPA Members' Handbook relating to Financial Reporting Standards.

Date of Next Meeting

The scheduled meeting on 4 March 2008 was cancelled. The next meeting will be held on 1 April 2008.

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@hkipa.org.hk.

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Meeting Summaries are provided for the information and convenience of those who wish to follow the Committee's deliberations. Decisions reported are tentative and may be changed or modified by the Committee at a later date. Decisions become final only after completion of the formal due process required to finalize and release documents. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this Meeting Summary, or for any errors or omissions in it.