



Minutes of the 173rd meeting of the Financial Reporting Standards Committee held on Tuesday, 14 July 2009 at 8:30 a.m. in the Board Room of the Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

Present: Mr. Paul F. Winkelmann (Chairman)
Mr. Clement Chan (Deputy Chairman)
Mr. Colin Chau
Mr. Ian Farrar
Mr. Wilson Fung
Mr. Paul Hebditch
Miss Fanny Hsiang
Ms. Caron Hughes
Ms. Susanna Lau
Mr. William Lim
Mrs. Catherine Morley – represented by Ms. Wincey Lam
Mr. Paul Phenix
Mrs. Lesley Wong

In attendance: Mr. PM Kam, Institute's representative on IASB Standards Advisory Council (for item 2 only)
Mr. Steve Ong, Director, Standard Setting
Ms. Winnie Chan, Manager, Standard Setting
Mr. Ambrose Wong, Manager, Standard Setting

1. **Minutes of the 172nd meeting**

The minutes of the 172nd meeting were approved by the Committee and signed by the Chairman.

2. **Report on IASB Standards Advisory Council meeting**

Mr. PM Kam attended the IASB Standards Advisory Council meeting held on 22 – 23 June 2009 and provided a verbal report on the items discussed as follows:

i) **Foreign Currency Accounting**

Due to significant devaluations of currencies, the application of IAS 21 has a great impact on entities in Korea. A project team headed by Korea, assisted by Malaysia and India, is set up to perform a full review of IAS 21. The Chairman of the project team acknowledged the functional currency issue in Hong Kong and will consider including this in the context of the review, where appropriate.

ii) **Local guidance and interpretation**

The IASB does not encourage the production of local guidance and interpretation of IFRS by jurisdictions. Alternatively, the IASB would encourage educational forum and seminar such as those carried out in Hong Kong. Hong Kong was praised in this respect.

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iii) Financial Instruments: Replacement of IAS 39

The IASB plans to publish an exposure draft in July 2009 on the classification and measurement of financial instruments as part of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. Further EDs on the impairment of financial assets and hedge accounting will be published later in October and December 2009 respectively.

The classification and measurement approach being developed would measure all financial assets and financial liabilities at either amortised cost or fair value. Fair value changes of strategic equity instruments are presented in other comprehensive income (OCI) with no recycling.

In relation to the impairment the IASB will explore the possibility of the expected loss impairment approach.

iv) How IASB should respond to urgent matters

The IASB is seeking views related to the fast-track procedure. Normally the IASB allows a period of 120 days for comment on an exposure draft. There is a consensus that if the matter is exceptionally urgent, the IASB may consider a comment period of less than 120 days for comments, but no less than 30 days.

v) Financial Statements Presentation

The SAC members are requested to share their views on removing the items currently presented in OCI and incorporating them into one of the sections of the comprehensive income statement. No consensus has yet been reached on this item, which is regarded as a longer term project.

3. Work plan for 2009 – status report

The Committee noted the progress made on the work plan for 2009.

4. Request for IFRIC interpretation on the application of “consumption of economic benefits” in paragraph 96 of IAS 38 *Intangible Assets*

The Committee reviewed the draft IFRIC request and agreed that the letter should also refer to the published report issued by the HKEx, which also concluded that HKAS 38 does not provide a clear solution on what constitutes “expected pattern of consumption”.

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[Post meeting note: The Institute’s request was forwarded to the IFRIC on 27 July 2009.]

5. IFRS for SME in Hong Kong

The IASB issued the final version of IFRS for SME in early July. The Committee noted that the SMP Leadership Panel has set up its own working group to consider the final standard. The Chairman shared his view that the IFRS for SME can ease the burden for private companies as it provides an option for them to choose a simpler reporting framework. In addition, as preparers in Hong Kong are already familiar with IFRS/HKFRS, it is believed that training efforts may be less strenuous than in other territories.

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The Committee generally agreed that IFRS for SME should be issued as an option for private companies.

The Committee directed the Standard Setting Department to prepare a draft consultation paper on the adoption of IFRS for SME in Hong Kong for discussion at the next meeting in August.

6. Updates on issues working with Wayne Upton, IASB director of International Activities

i) Annual Improvements to IFRS 2009 – IAS 17 Leases

Mr. Upton has provided some insights on applying the standard for land leases in Hong Kong. The Committee agreed to nominate Mrs. Catherine Morley as the convenor responsible for preparing a technical Q&A on this topic and the Chairman agreed to discuss this technical Q&A with the IASB staff during the World Standard Setters Meeting in September 2009.

Catherine Morley

ii) HKAS 21 – Determination of functional currency for an investment holding company

While waiting for the reply from Mr. Upton on this issue, the Committee agreed that a letter to IFRIC should be prepared and issued for comment by circulation.

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[Post meeting note: The Institute's request was forwarded to the IFRIC on 31 July 2009.]

iii) IFRS 1 – Accounting for privatisation

It was noted that at the IASB meeting held on 19 June 2009 in London, our request for scope exemption related to the accounting for privatization (i.e. deemed cost issue in PRC) in IFRS 1 was discussed and approved in principle by the IASB.

The details can be found by referring to paragraphs 2 to 3 under the title "Annual Improvements" of IASB Update June 2009.

<http://www.iasb.org/NR/rdonlyres/05EDD1DF-DFC8-49F1-8CC2-8064CB4B906C/0/IASBUpdateJun09.pdf>

7. IASB Discussion Paper on Preliminary Views on Leases

The Committee considered the draft submission prepared by the Working Group, which is supportive of the proposed "right-of-use approach" to lease accounting. However, in the view that some constituents in Hong Kong have expressed concerns that the analysis to justify the proposed approach is not adequate, the Committee agreed that the submission should also set out those diverse views.

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The Standard Setting Department is requested to prepare a revised draft for the Committee's consideration and endorsement by circulation.

[Post meeting note: The Institute's submission was forwarded to the IASB on 17 July 2009 and can be viewed at:

<http://www.hkicpa.org.hk/professionaltechnical/accounting/submissions/2009/Sub-DP-Leases.pdf>

8. **IASB Exposure Draft on *Income Tax***

The Committee agreed that the Institute should strongly emphasize in its submission that the issue of deferred tax on investment property revaluation gains in Hong Kong remains unresolved by the Exposure Draft. The Institute wrote to the IASB on this issue as far back as 2006 and is disappointed with the delay.

It was agreed that it is likely that several commentators may make submissions pointing out flaws in other areas of the exposure draft and there is a danger that this may hold up issuing revisions to the Standard. The Institute should point out that notwithstanding this we believe the issue of resolving inappropriate provisions for revaluations on property in Hong Kong about the clawback of the rebuilding allowances should be resolved as a matter of priority. We should also liaise with other standard setters in the region who have already expressed similar views.

[Post meeting note: The Institute's submission was forwarded to the IASB on 31 July 2009 and can be viewed at:

<http://www.hkicpa.org.hk/professionaltechnical/accounting/submissions/2009/Sub-IncomeTax.pdf>]

9. **Report on IASB Roundtable Meeting on Derecognition and Consolidation**

The Chairman thanked Ms. Caron Hughes for attending the IASB Roundtable Meeting on Derecognition and Consolidation in Tokyo on 8 – 9 June 2009 and providing a very useful written report for the Committee.

10. **Consideration of IASB Discussion Documents**

The Committee agreed that the Institute should prepare a submission on the following IASB Discussion Documents:

- (i) Discussion Paper on *Credit Risk in Liability Measurement*,
- (ii) Request for Information (“Expected Loss Model”) *Impairment of Financial Assets: Expected Cash Flow Approach*; and
- (iii) Exposure Draft of *Fair Value Measurement*.

Working Groups would be set up to facilitate the preparation of the Institute's comment letters.

In addition, the Committee agreed that no submission would be prepared for the Exposure Draft of Proposed Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* unless comment is received given that the issue is not of top priority in Hong Kong.

11. **Amendments to HKFRS 2 – Group Cash-settled Share-based Payment Transactions**

The Committee approved the issue of the Hong Kong equivalent of the amendments to IFRS 2 with the same effective date without modification.

[Post meeting note: Members' Handbook Update No. 67 can be viewed at
http://www.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/upd

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	<p>ates/update067.pdf</p> <p>12. <u>Submission on IASB Discussion Paper on Revenue Recognition in Contracts with Customers</u></p> <p>The Committee ratified the submission on IASB Discussion Paper on <i>Revenue Recognition in Contracts with Customers</i> which was approved by the Committee by circulation.</p>	
<p>13. <u>Annual Accounting Update 2009</u></p>	<p>The Committee suggested that the Conference should focus on an overview of the last nine-months financial reporting activities and have a forum session providing the participants with a chance to discuss the HKFRS application issues with the panel.</p> <p>The Committee suggested to include the following topics:</p> <ul style="list-style-type: none"> ➤ IFRS for SME ➤ Financial Instruments: Replacement of IAS 39 ➤ New amendments to HKFRSs issued during the year <p>The Chairman agreed to chair the conference and requested the Standard Setting Department to revise the outline programme for the Committee's further consideration.</p>	<p>SS Dept</p>
<p>14. <u>Updated comparison between HKFRSs and IFRSs</u></p>	<p>The Committee approved an updated comparison table between HKFRSs and IFRSs as at 1 July 2009 which is to be posted on the HKICPA website.</p> <p><i>[Post meeting note: The updated comparison table can be viewed at http://www.hkicpa.org.hk/professionaltechnical/accounting/rm/2009/ComparisonTableJuly.pdf]</i></p>	<p>SS Dept</p>
<p>15. <u>Amendments to Members' Handbook Volume II</u></p>	<p>The Committee agreed with the following editorial amendments to Members' Handbook Volume II:</p> <ul style="list-style-type: none"> (i) Amend paragraph 15(b) of HKAS 12 <i>Income Taxes</i> to achieve consistency with IAS 12; and (ii) Move all the footnotes related to legal requirements of the Companies Ordinance from the body of HKAS 1 <i>Presentation of Financial Statement</i> to its Appendix C. <p>With the frequent amendments to IFRS, the Chairman reminded the Standard Setting Department of his previous request to consider ways to improve the update procedures of the hard copy Members' Handbook.</p> <p><i>[Post meeting note: Members' Handbook Update No. 67 can be viewed at http://www.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/updates/update067.pdf]</i></p>	<p>SS Dept</p>

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There being no further business, the meeting closed at 10:10 a.m.

PAUL F. WINKELMANN
CHAIRMAN

24 July 2009