



**Financial Reporting Standards Committee**  
**Meeting summary – July 2005**

The Institute's Financial Reporting Standards Committee (Committee) met on 13 July 2005.

Members of the Committee present were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Tommy Fung, Paul Hebditch, Philip Hilliard, Tommy Tam, Stephen Taylor, Tom Wu (Rep. by Jacky Tsang), Ms. Olivia Cheung, Ms. Susanna Lau and Mrs. Catherine Morley.

Secretariat staff present were: Ms. Elaine Chan (Assistant Director, Standard Setting) and Ms. Florence Wong (Manager, Standard Setting).

The Committee discussed the following items:

1. Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard
2. Exposure Draft of proposed Accounting Guideline on Merger Accounting
3. Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*
4. Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* and HKFRS 6 *Exploration for and Evaluation of Mineral Resources*
5. Reply letter from the IASB on four accounting issues discussed with Sir David Tweedie
6. Withdrawal of Accounting Guideline 3 Accounts of Dealers in Securities
7. Interest on funding cost of property under development
8. Letter to IASB on an inconsistency between HKAS 17 and HKAS 38
9. Companies (Amendment) Ordinance 2005
10. Withdrawal of HKFRS-Int 3 *Emission Rights*

**1. Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard**

The Committee considered the revised draft Small and Medium-sized Entity Financial Reporting Framework (SME-FRF) and Financial Reporting Standard (SME-FRS) developed by the GAAP for Small Businesses Working Group (GSBWG).

The Committee considered the changes to the ED and recommended the GSBWG to consider the following:

- Aligning the definition of related parties with that in HKAS 24 *Related Party Disclosures*
- Considering substituting guidance on exchange of items of property, plant and equipment with that contained in HKAS 16 *Property, Plant and Equipment*
- Considering retaining Example 5 of Appendix 1 on long service payment.

*(Post meeting note: the GSBWG agreed to adopt all the changes recommended by the Committee except for that set out in the second bullet as they considered that the treatment of an exchange of items of PPE in HKAS 16 is too onerous for an SME.)*

The Committee endorsed the proposed SME-FRF and SME-FRS to be submitted to Council for approval, subject to the resolution of the above by the GSBWG. The SME-FRF and SME-FRS are effective for a qualifying entity's financial statements that cover accounting periods beginning on or after 1 January 2005. Earlier application is permitted.

**2. Exposure Draft of proposed Accounting Guideline on Merger Accounting**

The Committee noted that four comment letters had been received on the ED.

The Chairman directed the Working Group headed by Mr. Stephen Taylor to consider the comments received.

**3. Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option***

The Committee agreed to recommend Council to approve the issue of proposed Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option* that was based on the equivalent International Standard effective for annual financial statements covering periods beginning on or after 1 January 2006.

**4. Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* and HKFRS 6 *Exploration for and Evaluation of Mineral Resources***

The Committee agreed to recommend Council to approve the issue of proposed Amendments to HKFRSs 1 and 6 which were based on the equivalent International Amendments.

**5. Reply letter from the IASB on four accounting issues discussed with Sir David Tweedie**

The Committee received and noted the reply letter from the IASB on four accounting issues discussed by the Chairman with Sir David Tweedie at a regional standard-setters meeting in Thailand.

The Chairman directed the secretariat to draft a reply letter to the IASB to thank them for their responses and to notify the IASB that the Committee resolved not to amend HKAS 24 *Related Party Disclosures* to fix the anomaly previously identified by the Committee in order not to depart from the IAS equivalent and that the Committee is looking forward to the IASB's improvements in IAS 17 *Leases* and the introduction of performance reporting to help solving the accounting issues.

**6. Withdrawal of Accounting Guideline 3 *Accounts of Dealers in Securities***

The Committee noted that AG 3, issued in 1986, which sets out guidance on pro forma accounts and example auditors' report on the financial statements of securities dealers is out-dated. This guidance is now either set out in the Account Disclosure Document issued by the Securities and Futures Commission or Practice Note 820 *The audit of licensed corporations and associated entities of intermediaries*.

In the light of the above, the Committee agreed to recommend Council to withdraw AG 3.

**7. Interest on funding cost of property under development**

The Chairman received a request for the development of an interpretation on whether borrowing costs of property under development (both land and building elements) should be capitalised.

Members agreed that no borrowing costs should be capitalised until there are activities necessary to prepare the asset for its intended use or sale in progress. However, members did not reach a consensus as to whether borrowing costs incurred for leasehold

land can be capitalised as some expressed their views that land cannot be developed and leasehold land is not a qualifying asset.

Noting that there were diverse views, the Committee decided that no interpretation should be put forth at this stage pending the amendment to IAS 17 by the IASB.

#### **8. Letter to IASB on an inconsistency between HKAS 17 and HKAS 38**

The Committee noted at its last meeting an inconsistency between HKAS 17 *Leases* and HKAS 38 *Intangible Assets* concerning the guidance on determining the useful life of an asset in the case where the legal rights are conveyed for a limited period of time. In addition, it was noted that the conclusion of HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* would be different had HKAS 38 rather than HKAS 17 been the applicable standard.

In view of the above, a letter was sent to Mr. Warren McGregor, the regional liaison member of the IASB, on 23 May 2005 regarding HK Interpretation 4 to highlight the above inconsistency, seek the view of Mr. McGregor on the matter and request Mr. McGregor to refer it to the IASB for consideration.

#### **9. Companies (Amendment) Ordinance 2005**

The Committee noted a copy of a letter from The Financial Services and The Treasury Bureau (FSTB) informing the Institute of the passage of the Companies (Amendment) Bills 2004 which becomes the Companies (Amendment) Ordinance 2005. The Institute was requested to give its view on the proposed commencement date of the Companies (Amendment) Ordinance 2005, which was tentatively set for 1 December 2005 and the amendments included therein shall be applicable to companies with financial periods beginning on or after 1 January 2006.

Although the Committee was disappointed by the proposed arrangement as the Companies (Amendment) Ordinance 2005 shall not be applicable to companies with financial periods ending on 31 December 2005, the Committee noted the difficulties in doing so and accordingly, considered the proposals acceptable. The secretariat was requested to prepare a reply to the FSTB accordingly.

#### **10. Withdrawal of HKFRS-Int 3 *Emission Rights***

The Committee noted the IASB's decision at its June 2005 meeting to withdraw IFRIC 3 *Emission Rights* with immediate effect and agreed to recommend Council to approve the withdrawal of HKFRS-Int 3 with immediate effect.

#### **Date of Next Meeting**

The Committee agreed to hold its next meeting on 7 September 2005.

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) for the attention of the Executive Director.

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