



香港會計師公會

HONG KONG SOCIETY OF ACCOUNTANTS

(Incorporated by the Professional Accountants Ordinance, Cap. 50)

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5 June 2002

To: **HKSA members**
Finance Directors of listed companies
All other interested parties

EXPOSURE DRAFT: PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS

The International Accounting Standards Board (IASB) has issued an exposure draft of proposed improvements to a number of International Accounting Standards (IAS).

A CD-ROM version of the IASB's exposure draft is enclosed and has also been posted on the Hong Kong Society of Accountants (HKSA) web site at <http://www.hksa.org.hk/professional>. The IASB's press release and exposure draft can also be found on-line at: <http://www.iasb.org.uk>.

To allow your comments on the exposure draft to be considered and included in our response to the IASB, the HKSA Financial Accounting Standards Committee (FASC) requests your comments on the accompanying exposure draft by 31 August 2002.

Following from the IASB's final approved amendments, the FASC intends to recommend the amendment of equivalent Hong Kong Statements of Standard Accounting Practice (SSAP) so that the SSAPs maintain conformity with the IASB's standards. Your attention is drawn to the FASC's intention to recommend the revision of SSAP 11 (Foreign Currency Translation) based on the IASB's proposed revision of IAS 21 (The Effects of Changes in Foreign Exchange Rates) appearing on pages 177-208 of the exposure draft.

Except in the case of proposed revisions to IAS 40, Investment Property (SSAP 13) and IAS 17, Leases (SSAP 14), the FASC will not issue a specific Hong Kong exposure draft on the matters covered in the IASB exposure draft unless any changes made by the IASB to the exposure draft are so significant as to warrant, in the opinion of the FASC, seeking further comment. The FASC intends to revise SSAP 13 and SSAP 14 in the near future and the proposals contained in the IASB exposure draft will therefore be reflected in a separate exposure draft to be issued by the FASC.

In addition to the IASB's 'Invitation to Comment', the FASC has raised a number of additional issues on the next and subsequent pages on which views are sought from commentators in Hong Kong.

The FASC invites comments from any interested party and would like to hear from both those who do agree and those who do not agree with the proposals contained in the exposure draft. Comments should be supported by specific reasoning and should preferably be submitted in written form. A table summarising specific comments requested by the FASC has been attached to the Invitation to Comment. Copies may also be downloaded from the HKSA website at: <http://www.hksa.org.hk/professional>.

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Comments are requested to be received by 31 August 2002 and may be sent by mail, fax or e-mail to:

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Hong Kong Society of Accountants
4th floor Tower Two, Lippo Centre
89 Queensway
Hong Kong

Fax number (+ 852) 2865 6776
E-mail: commentletters@hksa.org.hk

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

ADDITIONAL MATTERS FOR COMMENTATORS IN HONG KONG

Proposed in the IASB's exposure draft are amendments to a number of existing International Accounting Standards (IAS). These amendments seek to:

- Eliminate choices (explicit or implicit) and standardise financial reporting practice in a number of areas;
- Eliminate conceptual inconsistencies between individual IASs;
- Provide additional guidance;
- Provide for additional disclosure; and
- Improve on the drafting in a number of areas.

Because no specific Hong Kong exposure draft will be issued in respect of the amendments proposed in the IASB's exposure draft (except in relation to the accounting standards on leases and investment properties), the FASC invites comments on the IASB's proposals from interested parties in Hong Kong with a view to the amendment of both the IASs as well as Hong Kong SSAPs.

In keeping with the Hong Kong Society of Accountants' policy to converge Hong Kong SSAPs with the IASB's Standards, in most cases, the FASC intends to recommend that the Hong Kong SSAPs be amended to become consistent with the corresponding IASB Standard.

In certain circumstances, however, adoption of an IASB proposal would result in the comparable Hong Kong SSAP being of a lower standard than at present or inconsistent with the requirements of the laws applying in Hong Kong.

The FASC sets out below a number of additional issues in relation to the amendment of SSAPs on which views are sought from commentators in Hong Kong. These issues are primarily where amendments to Hong Kong SSAPs would differ from those appearing in the IASB exposure draft. When commenting on proposed amendments to Hong Kong SSAPs, commentators should note that there are a significant number of changes proposed in the IASB exposure draft that are not reflected in the FASC's Invitation to Comment below but which are relevant to proposed changes to Hong Kong SSAPs.

IAS 1, Presentation of Financial Statements (SSAP 1)

1. The existing SSAP 1 includes certain paragraphs dealing with the requirements under the Companies Ordinance regarding the presentation of financial statements (see introduction, paragraphs 20, 54, 59, 78, 91, 93 114 and 116). The FASC proposes to retain these paragraphs in SSAP 1.
2. The existing SSAP 1 uses accounts prepared by certain private companies taking advantage of the exemptions granted by Section 141 D of the Companies Ordinance as an example of tailored reports. The FASC proposes to retain this example.
3. IAS 1 uses the terms "fair presentation" and "to present fairly". The existing SSAP 1 however uses the terms "true and fair" and "to give a true and fair view". Given that "true and fair" is the term used in the Companies Ordinance, the FASC proposes to retain the use of the term "true and fair" in SSAP 1. Do you agree?
4. IAS 1 requires "revenue" to be disclosed on the face of the income statement. The existing SSAP 1 however requires "turnover" and "other revenue" to be disclosed on the face of the income statement instead. Given that the Companies Ordinance requires the disclosure of "turnover", do you consider that either:
 - a. The requirements under SSAP 1 in this regard be retained; or
 - b. The requirements under SSAP 1 in this regard be amended so that they become consistent with IAS 1 and that a note be added in SSAP 1 to highlight the relevant disclosure requirement under the Companies Ordinance?

5. IAS 1 states that assets and liabilities shall not be offset except when offsetting is required by another Standard. The existing SSAP 1 however sets out detailed offsetting rules (see paragraph 34). Given that there is currently no SSAP in Hong Kong that deals with the offsetting of financial assets and liabilities, the FASC proposes to retain the offsetting rules in SSAP 1 until the exposure drafts on financial instruments are finalised and become effective. Do you agree?
6. IAS 8 requires all items of income and expense (including, for example, share issue expenses) recognised in a period to be included in the determination of profit or loss unless a Standard requires or permits otherwise (proposed to be included in IAS 1). SSAP 2 requires such an inclusion unless a SSAP or, in the absence of a relevant SSAP, the law requires or permits otherwise. The FASC proposes to retain the provision in the existing SSAP 2 (proposed to be included in SSAP 1). Do you agree?
7. The IASB exposure draft proposes to remove the disclosure of an entity's country of incorporation. The FASC proposes to retain this disclosure requirement in SSAP 1 because this is a good source of information to distinguish Hong Kong incorporated companies that are required to comply with the Companies Ordinance from those that are not. In particular, certain SSAPs contain specific provisions for Hong Kong incorporated companies. Do you agree?

IAS 2, Inventories (SSAP 22)

8. The IASB exposure draft proposes to eliminate the use of LIFO. The existing SSAP 22 does not permit the use of LIFO. Accordingly, the FASC considers that the IASB's proposed elimination of LIFO will not give rise to any change to SSAP 2 in this respect.

IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (SSAP 2)

9. The IASB exposure draft proposes to eliminate the allowed alternative in IAS 8 to the treatments of correction of errors and other (voluntary) changes in accounting policy. The existing SSAP 2 does not permit the use of the allowed alternative. Accordingly, the FASC considers in this respect that the IASB's proposed amendments to IAS 8 will not give rise to any change to SSAP 2.
10. IAS 1 sets out the hierarchy of IASB pronouncements and authoritative non-mandatory guidance (proposed to be included in IAS 8). However, within the standard setting framework, unlike that of the IASB, the HKSA also currently has the ability to issue "Accounting Guidelines" and "Accounting Bulletins". The FASC intends in the near future to review the Foreword and Framework for consistency with the IASB's revised Preface and Framework. Notwithstanding this, the FASC proposes to build the above additional forms of guidance into the relevant provisions in SSAP 2. Do you agree?

IAS 10, Events After the Balance Sheet Date (SSAP 9)

11. IAS 10 requires an entity not to recognise dividends declared after the balance sheet date as a liability at the balance sheet date. SSAP 9 includes a footnote to the corresponding paragraph to cross refer to the notes on the legal requirements in Hong Kong that the Tenth Schedule to the Companies Ordinance requires the disclosure of the aggregate amount which is recommended for distribution by way of dividend in the balance sheet. The FASC proposes to retain the footnote in SSAP 9. Do you agree?

IAS 15, Information Reflecting the Effects of Changing Prices

12. There is currently no SSAP corresponding to IAS 15. Accordingly, the FASC considers that the IASB's proposed withdrawal of IAS 15 will not give rise to any change to Hong Kong SSAPs.

IAS 16, Property, Plant and Equipment (SSAP 17)

13. The existing SSAP 17 includes a section on transfers between different types of assets (see paragraphs 57 to 65) that is based on the relevant section in IAS 40, Investment Property. The FASC proposes to retain this section in SSAP 17 dealing with transfers until IAS 40 is adopted in Hong Kong. Do you agree?
14. The existing SSAP 17 includes two specific transitional arrangements to deal with property, plant and equipment carried at revalued amounts in financial statements relating to periods ended before 30 September 1995 (see paragraph 80) and the implementation of the components approach to major inspection and overhaul costs (see paragraph 81). The FASC proposes to retain these transitional arrangements. Do you agree?

IAS 17, Leases (SSAP 14)

15. The IASB's exposure draft proposes to amend paragraph 11 to provide clarification on the classification of a lease of both land and buildings as being either an operating lease or a finance lease. The FASC will be considering a proposed revision of SSAP 14 in the near future with a view to achieving full convergence with IAS 17. The proposals contained in the IASB exposure draft will therefore be reflected in a separate exposure draft to be issued by the FASC.

IAS 21, The Effects of Changes in Foreign Exchange Rates

16. The FASC intends to recommend the revision of SSAP 11 based on the IASB's proposed revision of IAS 21 (pages 177 to 208 of the ED). As a result, the exposure draft issued in October 1997 that was modelled on IAS 21 is withdrawn. The current SSAP 11 is materially the same as the current IAS 21 except that there are no specific rules concerning the translation of the financial statements of hyperinflationary subsidiaries. For the main changes proposed to the current IAS 21, please refer to pages 179 to 182 of the IASB's exposure draft.

IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries (SSAP 32)

17. The existing SSAP 32 (paragraphs 3, 4, 27, 28 and 46) includes certain specific provisions for Hong Kong incorporated companies to deal with the situations where using the definition of subsidiary in SSAP 32 would conflict with the definition of subsidiary in Companies Ordinance. The FASC proposes to retain these specific provisions until such time as there is a change in the law. The FASC believes that these provisions are consistent with the proposal under paragraph 15 of the proposed improvements to IAS 1.
18. IAS 27 requires the difference of the proceeds from the disposal of the subsidiary and its carrying amount to be recognised in the consolidated income statement as the profit or loss on the disposal of the subsidiary. The existing SSAP 32 also requires the related unamortised goodwill and the related accumulated foreign currency translation difference to be included in such calculations. This additional guidance was added because there were inconsistent practices on dealing with these two items. Although the IASB exposure draft proposes to require the cumulative amount of any exchange differences to be included, the FASC proposes to retain the guidance in respect of unamortised goodwill in SSAP 32.

19. The existing SSAP 32 (paragraphs 16 to 22) incorporates the consensus in SIC-12, Special Purpose Entities. The FASC understands that SIC-12 remains in existence but is not being included within IAS 27 at this stage as the IASB is reviewing the general issue of special purpose entities. In the meantime, the FASC intends to retain these provisions in SSAP 32.
20. The existing SSAP 32 contains certain additional disclosures that are not in IAS 27. These disclosures are consistent with the disclosures for associates and joint ventures. The IASB's exposure draft also proposes to remove the disclosure of a listing of significant subsidiaries, including the name, country of incorporation, proportion of ownership or voting power held. The FASC however proposes to retain all the disclosures currently required under the existing SSAP 32 (see paragraph 45) and to amend them only if the IASB exposure draft proposes similar or new disclosures.

IAS 28, Investments in Associates (SSAP 10)

21. The existing SSAP 10 includes guidance on determining the profit or loss on disposal of an associate (see paragraph 24) but such guidance is not included in IAS 28. This paragraph was added because the practices on determining such profit were inconsistent, especially when dealing with the related unamortised goodwill and the related accumulated foreign currency translation differences. The FASC proposes to retain this guidance in SSAP 10. Do you agree?
22. The existing SSAP 10 requires that, in the case of associates which are listed on a recognised stock exchange, only published financial information should be disclosed in the financial statements of the investor when making the disclosures required under SSAP 10. No similar requirement is included in IAS 28. Do you consider that this requirement should be retained in SSAP 10?
23. The existing SSAP 10 contains certain additional disclosures that are not in IAS 28. These disclosures are consistent with the disclosures for subsidiaries and joint ventures. The IASB's exposure draft proposes to remove the disclosure of an appropriate listing and description of significant associates, including the proportion of ownership interest or voting power held. In view of the significant amount of business conducted through associates in Hong Kong, the FASC proposes to retain all the disclosures currently required under the existing SSAP 10 (see paragraphs 34 to 40) and to amend them only if the IASB exposure draft proposes similar or new disclosures.

IAS 40, Investment Property

24. The IASB's exposure draft proposes that the definition of investment property in IAS 40 be amended so that property rights held under an operating lease can qualify as investment property if the other conditions for investment property are met and the lessee's policy is to account for investment property using the fair value model. The FASC will be considering a proposed revision of SSAP 13 in the near future with a view to achieving convergence with IAS 40. The proposals contained in the IASB exposure draft will therefore be reflected in a separate exposure draft to be issued by the FASC.

Consequential amendments to IAS 14, Segment Reporting (SSAP 26)

25. As per point 4 above, views are sought as regards the disclosure of "turnover" as distinct from "revenue" on the face of the income statement. The decision of this would have a consequential impact on the definition of segment revenue in SSAP 26.

Consequential amendments to IAS 22, Business Combinations (SSAP 30)

26. IAS 22 covers both an acquisition of one enterprise by another and also the rare situation of a uniting of interests. SSAP 30 however takes the view that an acquirer should always be identifiable in every business combination and thus it does not cover the accounting for a uniting of interests. The IASB's exposure draft proposes to make certain consequential changes to the provisions in IAS 22 concerning the accounting for a uniting of interests. The FASC considers the IASB proposed consequential amendments in this respect would not give rise to any change to SSAP 30.

Consequential amendments to IAS 31, Financial Reporting of Interests in Joint Ventures (SSAP 21)

27. IAS 31 allows an enterprise to report its interest in a jointly controlled entity in the consolidated financial statements of a venturer using proportionate consolidation. The existing SSAP 21 however does not permit the application of proportionate consolidation. The IASB exposure draft proposes to make certain consequential changes to the provisions in IAS 31 concerning proportionate consolidation. The FASC does not propose to introduce the use of proportionate consolidation and therefore considers that the IASB's proposed amendment to IAS 31 in this respect will not give rise to any change to SSAP 21.

Consequential amendments to IAS 35, Discontinuing Operations (SSAP 33)

28. As per point 4 above, views are sought as regards the disclosure of "turnover" as distinct from "revenue" on the face of the income statements. The decision of this would have a consequential impact on the disclosure of the amounts attributable to the discontinuing operation during the current financial reporting period.

Other consequential amendments

29. The IASB exposure draft proposes to amend IAS 12 and 32. The FASC has already issued exposure drafts based on these IASs. The FASC will take into account the IASB's proposed consequential amendments to these IASs when finalising these proposed SSAPs.
30. The IASB exposure draft proposes to amend IAS 29. The FASC intends to develop a SSAP based on IAS 29 in the near future. Accordingly, the IASB's proposed consequential amendments to IAS 29 will be taken into account when developing the Hong Kong equivalent of IAS 29.

Amendments and Withdrawals of SIC Interpretations

31. The IASB exposure draft proposes to amend SIC-7 and, in respect of SIC-1, SIC-2, SIC-3, SIC-11, SIC-18, SIC-19, SIC-20, SIC-23 and SIC-30, to both withdraw and subsume those SICs into the body of the relevant IAS. There are no Hong Kong Interpretations corresponding to these SIC Interpretations. In some cases, however, the conclusions of these SIC Interpretations have already been incorporated in the relevant SSAPs. As a consequence, the FASC proposes not to make any consequential amendment to the Hong Kong Interpretations equivalent to the above SICs.
32. The IASB exposure draft proposes to amend SIC-13. The consensus of SIC-13 is already reflected in SSAP 21. Consequently, the FASC proposes to reflect the proposed amendment to SIC-13 in relevant paragraphs in SSAP 21.

Summary of comments requested in the FASC’s Invitation to Comment

Paragraph numbers correspond to those appearing in the FASC’s Invitation to Comment.

	Agree	Disagree	Comment
<p>IAS 1, Presentation of Financial Statements (SSAP 1)</p> <p>3. IAS 1 uses the terms “fair presentation” and “to present fairly”. The existing SSAP 1 however uses the terms “true and fair” and “to give a true and fair view”. Given that “true and fair” is the term used in the Companies Ordinance, the FASC proposes to retain the use of the term “true and fair” in SSAP 1. Do you agree?</p>			
<p>4. IAS 1 requires “revenue” to be disclosed on the face of the income statement. The existing SSAP 1 however requires “turnover” and “other revenue” to be disclosed on the face of the income statement instead. Given that the Companies Ordinance requires the disclosure of “turnover”, do you consider that either:</p> <p>a. The requirements under SSAP 1 in this regard be retained; or</p> <p>b. The requirements under SSAP 1 in this regard be amended so that they become consistent with IAS 1 and that a note be added in SSAP 1 to highlight the relevant disclosure requirement under the Companies Ordinance?</p>			
<p>5. IAS 1 states that assets and liabilities shall not be offset except when offsetting is required by another Standard. The existing SSAP 1 however sets out detailed offsetting rules (see paragraph 34). Given that there is currently no SSAP in Hong Kong that deals with the offsetting of financial assets and liabilities, the FASC proposes to retain the offsetting rules in SSAP 1 until the exposure drafts on financial instruments are finalised and become effective. Do you agree?</p>			
<p>6. IAS 8 requires all items of income and expense (including, for example, share issue expenses) recognised in a period to be included in the determination of profit or loss unless a Standard requires or permits otherwise (proposed to be included in IAS 1). SSAP 2 requires such an inclusion unless a SSAP, or in the absence of a relevant SSAP, the law requires or permits otherwise. The FASC proposes to retain the provision in the existing SSAP 2 (proposed to be included in SSAP 1). Do you agree?</p>			

	Agree	Disagree	Comment
<p>7. The IASB exposure draft proposes to remove the disclosure of an entity's country of incorporation. The FASC proposes to retain this disclosure requirement in SSAP 1 because this is a good source of information to distinguish Hong Kong incorporated companies that are required to comply with the Companies Ordinance from those that are not. In particular, certain SSAPs contain specific provisions for Hong Kong incorporated companies. Do you agree?</p>			
<p><i>IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (SSAP 2)</i></p> <p>10. IAS 1 sets out the hierarchy of IASB pronouncements and authoritative non-mandatory guidance (proposed to be included in IAS 8). However, within the standard setting framework, unlike that of the IASB, the HKSA also currently has the ability to issue "Accounting Guidelines" and "Accounting Bulletins". The FASC intends in the near future to review the Foreword and Framework for consistency with the IASB's revised Preface and Framework. Notwithstanding this, the FASC proposes to build the above additional forms of guidance into the relevant provisions in SSAP 2. Do you agree?</p>			
<p><i>IAS 10, Events After the Balance Sheet Date (SSAP 9)</i></p> <p>11. IAS 10 requires an entity not to recognise dividends declared after the balance sheet date as a liability at the balance sheet date. SSAP 9 includes a footnote to the corresponding paragraph to cross refer to the notes on the legal requirements in Hong Kong that the Tenth Schedule to the Companies Ordinance requires the disclosure of the aggregate amount which is recommended for distribution by way of dividend in the balance sheet. The FASC proposes to retain the footnote in SSAP 9. Do you agree?</p>			
<p><i>IAS 16, Property, Plant and Equipment (SSAP 17)</i></p> <p>13. The existing SSAP 17 includes a section on transfers between different types of assets (see paragraphs 57 to 65) that is based on the relevant section in IAS 40, Investment Property. The FASC proposes to retain this section in SSAP 17 dealing with transfers until IAS 40 is adopted in Hong Kong. Do you agree?</p>			

	Agree	Disagree	Comment
14. The existing SSAP 17 includes two specific transitional arrangements to deal with property, plant and equipment carried at revalued amounts in financial statements relating to periods ended before 30 September 1995 (see paragraph 80) and the implementation of the components approach to major inspection and overhaul costs (see paragraph 81). The FASC proposes to retain these transitional arrangements. Do you agree?			
<i>IAS 28, Investments in Associates</i> (SSAP 10)			
21. The existing SSAP 10 includes guidance on determining the profit or loss on disposal of an associate (see paragraph 24) but such guidance is not included in IAS 28. This paragraph was added because the practices on determining such profit were inconsistent, especially when dealing with the related unamortised goodwill and the related accumulated foreign currency translation differences. The FASC proposes to retain this guidance in SSAP 10. Do you agree?			
22. The existing SSAP 10 requires that, in the case of associates which are listed on a recognised stock exchange, only published financial information should be disclosed in the financial statements of the investor when making the disclosures required under SSAP 10. No similar requirement is included in IAS 28. Do you consider that this requirement should be retained in SSAP 10?			