

Financial Accounting Standards Committee

Meeting summary – July 2002

The Society's Financial Accounting Standards Committee (Committee) met on 10 July 2002 and discussed the following items:

- ✓ Investment Property
- ✓ The transition to SSAP 34, Employee Benefits

Investment Property

The Committee reviewed a proposed exposure draft revision of SSAP 13, which is based on the requirements contained in IAS 40, and a draft Invitation to Comment on the ED.

Discussion centred on the method by which changes in the fair value of investment property were reported in the financial statements. At present, SSAP 13 requires changes in the open market value of an investment property portfolio to be accounted for directly into a reserve to the extent that the reserve remains in credit. Thereafter any further debit balances (and reversals thereof) are dealt with in the income statement. As a consequence under SSAP 13 the income statement is not frequently affected by changes in the value of investment properties. IAS 40 requires all changes in the fair value of investment property to be reported in the income statement as part of net profit or loss for the year.

The Committee noted that the International Accounting Standards Board (IASB) is currently working on the "Reporting Performance" project that would result in a substantial overhaul to the presentation of net profit or loss for a financial period. Present proposals under review by the IASB include replacing the income statement with a Statement of Comprehensive Income, which would require the reporting of net profit or loss from current period items separately to the reporting of net profit or loss resulting from changes in estimates relevant to future accounting periods, amongst which is changes in the fair value of investment property.

The benefit of the approach presently under consideration by the IASB would be to remove the impact of changes in fair value from 'headline' earnings.

The Committee also discussed briefly whether the commentary accompanying the ED should indicate that changes in the fair value of investment property should continue to be reported directly in equity as at present or whether the revision to SSAP 13 would become effective only on finalisation of the IASB's project on reporting performance.

The Committee agreed to consider a revised draft Invitation to Comment at its next meeting.

The transition to SSAP 34, Employee Benefits

The Committee considered the situation where an enterprise prepares its financial statements in accordance with Hong Kong SSAPs and, prior to the introduction of SSAP 34 for periods beginning on or after 1 January 2002, accounted for its defined benefit plan obligations under IAS 19, Employee Benefits. In so doing, the enterprise had previously applied accounting policies that are identical to SSAP 34 going forward.

The transitional provision for defined benefit obligations specified in SSAP 34 paragraph 157 is the same as that specified in IAS 19 paragraph 154 but the liability recognised on transition is measured in a slightly different way subsequently – actuarial gains and losses are not taken into account on transition.

When an enterprise has adopted the accounting treatment in an IAS that is identical to that specified subsequently in an SSAP, the Committee considered that the enterprise is not transitioning into the newly applicable SSAP and, instead, continues to apply the accounting policy in accordance with that required under the SSAP going forward.

As a result the defined benefit liability, recognised previously in accordance with IAS 19, would not be subject to the specific transitional provision in SSAP 34.

Date of Next Meeting

The Committee's next meeting will be held on 14 August 2002.

This meeting summary is provided for the information and convenience of those who wish to follow the Committee's deliberations. All conclusions reported are tentative and may be changed at future meetings.

The IASB publishes summaries of its meetings and these can be found on the IASB's website at <http://www.iasb.org.uk>.

The Committee welcomes comments on its technical agenda. Please e-mail us at commentletters@hksa.org.hk.