

Financial Accounting Standards Committee

Meeting summary – February 2003

The Society's Financial Accounting Standards Committee (Committee) met on 12 February 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Carlson Tong (Deputy Chairman), Paul F. Winkelmann (Deputy Chairman), Edward K.F. Chow, William Crowe, Raphael Ding, Tommy Fung, Robert Gibson, Nigel Reid, Stephen Taylor, Bernard Wilkinson, Patrick L.T. Wong, Ms. Susanna Lau, Olivia Cheung, Ms. Winnie Cheung (HKSA Senior Director), Mr. Simon Riley (HKSA Deputy Director, Accounting) and Ms. Elsa Ho (HKSA Assistant Director, Accounting).

The Chairman welcomed Messrs. Carlson Tong, William Crowe, Raphael Ding, Patrick L.T. Wong, and Ms. Susanna Lau to their first meeting as members of the Committee. The Committee expressed gratitude to the retiring members, Messrs. Bernard Wilkinson, Billy Chan, Charles Grieve, Andrew Williamson, Ms. Sheila Pattle, and Prof. Judy Tsui, for their support and contribution to the Committee.

The Committee also noted that representation onto the Committee is in the process of being invited from the HK Association of Banks, HK Federation of Insurers, HK General Chamber of Commerce, HK Institute of Directors, HK Investment Funds Association, HK Monetary Authority, the HKSA's Financial Management Committee, a CFO/CAO of another HSI company, and a tertiary education institution.

The Committee discussed the following items:

- ✓ Further discussion on "power to control" provisions in SSAP 32
- ✓ Work plan for 2003
- ✓ Proposed ED/Preface – suggested amendment arising from legal opinion sought in relation to HKSA's enforcement power on non-HKSA standards
- ✓ IASC Foundation Trustees' Proposed Testing and Certification Programme
- ✓ Response to JWG re Tenth Schedule disclosures
- ✓ IASB's ED 2, Share-based Payment
- ✓ IASB's ED 3, Business Combinations
- ✓ IASB's roundtable discussions on ED/Financial Instruments

Further discussion on "power to control" provisions in SSAP 32

The Committee further considered the issues of:

- Whether "dominant influence" would give rise to a "power to control"; and
- Whether control required evidence of a legally enforceable agreement.

The Committee discussed whether there is a general consensus in the application of SSAP 32 paragraph 14, particularly in terms of which factors, when present, would suggest that an entity that has a single-largest but less than 50% shareholder becomes a subsidiary. The Committee also discussed the nature of "control" in the context of joint ventures in the People's Republic of China.

The Committee noted that the IASB has a project on consolidation and the definition of control. For the purpose of communicating any concerns there may be on the topic to the IASB, the Committee agreed to conduct research on practical examples of difficulties encountered in applying with consistency the provisions in IAS 27 (SSAP 32) and IAS 31 (SSAP 21).

Committee's work plan for 2003

The Committee considered its work plan for 2003 and agreed that, subject to certain amendments, the work plan be published in The Hong Kong Accountant and on the HKSA website.

Proposed ED/Preface – suggested amendment arising from legal opinion sought in relation to HKSA's enforcement power on non-HKSA standards

In August 2002 the Committee considered a proposed ED/ Preface to SSAPs that was based on the IASB's recently finalised Preface. Release of the exposure draft was delayed pending a legal opinion in relation to HKSA's enforcement power on non-HKSA standards.

The Committee considered the legal opinion received in relation to HKSA's enforcement power over non-HKSA standards, in particular a proposal to include two paragraphs at the end of the proposed ED/Preface regarding compliance with other standards. These paragraphs would give effect to the HKSA Council's specification of professional standards applicable under the Professional Accountants Ordinance and, accordingly, would permit the HKSA to initiate disciplinary action against an HKSA member for an alleged breach of such (non-HKSA) standards.

The Committee considered that a redrafting of the two paragraphs would be necessary in order to give effect to the recommendation made in the legal opinion and in order to align the requirements applying to non-HKSA standards with the requirements applying to HKSA standards as set out in paragraphs 17 to 21 of the proposed ED/Preface (concerning HKSA members' obligation to observe SSAPs or justify departures). The Committee requested that the Secretariat develop draft replacement wording and to consult with the lawyer in this regard before proceeding to finalise the ED/Preface for consultation.

IASC Foundation Trustees' Proposed Testing and Certification Programme

The Committee finalised its consideration of a comment letter in response to the IASC Foundation Trustees' consultation paper on the proposed testing and certification programme. The comment letter will be made available on the HKSA website at <http://www.hksa.org.hk/professionalttechnical/accounting/submissions/index.php> after 28 February 2003 when the IASC Foundation Trustees' comment period expires.

Response to JWG re Tenth Schedule disclosures

The Committee finalised its consideration of a response to the Joint Working Group (JWG) concerning the JWG's suggestions to build in six specific Tenth Schedule disclosures into the SSAPs. The response generally indicates that there is no need to include the suggested disclosures in SSAPs as they would either be covered by future SSAPs or be better suited to the requirements of a MD&A.

IASB's ED 2, Share-based Payment

The Committee continued its deliberation of an initial draft comment letter on ED 2. The Committee agreed that a sub-group would convene prior to the end of February to consider comments received on the Committee's Invitation to Comment and to finalise the Society's comment letter to the IASB.

The Committee also noted that the CPD seminar on share-based payment originally scheduled for 23 January 2003 had been postponed to 20 March 2003.

IASB's ED 3, Business Combinations

The Committee undertook an initial review of a draft comment letter on ED 3 and agreed to further consider the letter at its next meeting.

IASB's roundtable discussions on ED/Financial Instruments

The Committee noted that Mr. Charles Grieve would be representing the HKSA at the forthcoming IASB roundtable discussions on the proposed revisions to IAS 32 and IAS 39.

Date of Next Meeting

The Committee's next meeting is scheduled to be held on 12 March 2003.

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.uk>.

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