

Financial Accounting Standards Committee

Meeting summary – September 2003

The Society's Financial Accounting Standards Committee (Committee) met on 10 September 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Carlson Tong (Deputy Chairman), Paul F. Winkelmann (Deputy Chairman), Chan Lok Sang, Choy Chung-foo (represented by Mr. Vingle Yuen), William Crowe, Raphael Ding, Tommy Fung, Robert Gibson, Philip Hilliard, Andrew Huke, Quinn Y.K. Law, Nigel Reid (represented by Mr. Paul Hebditch), Tommy Tam, Ms. Olivia Cheung, Ms. Susanna Lau, Mr. Simon Riley (HKSA Deputy Director, Accounting) and Ms. Elsa Ho (HKSA Assistant Director, Accounting).

The Committee discussed the following items:

- ✓ Proposed HKFRS 1, First-Time Adoption of Hong Kong Financial Reporting Standards
- ✓ Investment Property – further consideration of provisions re transfers between classes of assets
- ✓ Proposed SSAP 37, Accounting and Reporting by Retirement Benefit Plans, and proposed replacement of Statement 2.302
- ✓ Proposed Preface to Hong Kong Financial Reporting Standards – continued discussion on the ED
- ✓ Report from the Urgent Issues & Interpretations Sub-Committee meetings held on 25 June and 23 July 2003

Proposed HKFRS 1, First-Time Adoption of Hong Kong Financial Reporting Standards

The Committee received and considered revised draft copies of the following documents that had taken into account the comments made by the Committee at its last meeting:

- Proposed HKFRS 1
- Guidance on Implementing HKFRS 1
- Basis for Conclusions on HKFRS 1

Subject to a few minor changes, the Committee agreed to recommend the above documents be issued as final statements to become effective for financial statements covering accounting periods beginning on or after 1 January 2004.

The Committee discussed whether an accountants' report could be considered as the first set of financial statements prepared under HKFRSs. The Committee generally considered that, under the current regime, financial information prepared for the first time in accordance with HKFRSs published in an investment circular should not be considered as first time adoption of HKFRSs. The Committee acknowledged that this is an issue that needs to be addressed at some point in time but not necessarily in HKFRS 1. Since the HKSA Accountants' Report Task Force (ARTF) is currently reviewing the guidance on preparing financial information in circulars, the Committee would work together with the ARTF to develop appropriate guidance.

Investment Property – further consideration of provisions re transfers between classes of assets

The Committee received a paper proposing replacement provisions for ED/SSAP 13 (revised) re transfers between categories of assets together with the comments received thereon. The replacement provisions include a proposal to require the revaluation reserve of an investment property to be derecognised at the date of transfer to inventory carried at lower of cost and NRV or PPE carried at cost.

The Committee considered that, since ED/SSAP 13 (revised) was merely an interim measure prior to the full adoption of IAS 40, it should not propose any changes to the existing practice unless such changes were unavoidable from the adoption of a new requirement under IAS 40. The Committee was of the view that a "death bed accounting" approach on transfers (i.e. the investment property is revalued, the revalued amount is taken as the deemed cost in the new category in all cases, and the existing reserve, if any, should be frozen until it is realised on disposal, amortisation or impairment), rather than the approach set out in the paper, should be adopted in ED/SSAP 13 (revised) because that approach is more commonly applied at present.

Proposed SSAP 37, Accounting and Reporting by Retirement Benefit Plans, and proposed replacement of Statement 2.302

The Committee received and considered the following documents that were referred for its consideration by the Expert Panel on Insurance (EPI):

- A marked up draft of proposed SSAP 37 based on IAS 26, Accounting and Reporting by Retirement Benefit Plans
- A marked up and a clean copy of a draft appendix to the proposed SSAP that is based on the existing Statement 2.302, Financial Statements of Retirement Schemes
- A draft Invitation to Comment on the proposed SSAP.

The Committee endorsed the above documents to be sent to the MPF Authority for comments before releasing them for public consultation.

Proposed Preface to Hong Kong Financial Reporting Standards – continued discussion on paragraph 31 (pages 5-7 of covering memo)

The Committee continued its discussion on paragraph 31 of ED, Preface to Hong Kong Financial Reporting Standards, concerning the relationship of HKFRSs with IFRSs.

The Committee agreed to remove paragraph 31 as members considered that the guidance in paragraph 31 was unnecessary and had already been covered by paragraph 30 of the ED. Subject to this and a few other wording changes, the Committee then agreed to recommend that the proposed Preface be issued as a final Statement concurrently with the proposed HKFRS 1.

Report from the Urgent Issues & Interpretations Sub-Committee meetings held on 25 June and 23 July 2003

The Committee received the meeting notes of the Urgent Issues and Interpretations Sub-Committee (UIISC), which summarised its views on the following referral issues from the Committee:

- Inconsistency between paragraph 4 of Interpretation 20 and the equivalent paragraph of SIC-21 (“Issue 1”);
- Classification of properties, including hotels and service apartments (“Issue 2”);
- Treatment of revaluation reserve upon a transfer from investment property carried at valuation to owner-occupied properties carried at revalued amount under SSAP 17 (“Issue 3”);
- Treatment of transport infrastructure facilities (“Issue 4”).

As regards issue 1, the Committee agreed with UIISC that there is a need to bring Interpretation 20 in line with SIC-21. However, the Committee had sympathy with the concern raised that many enterprises had already used Interpretation 20 for preparing their interim results and it might be difficult to justify changing Interpretation 20 so close after its issue. After considering a few alternatives about the timing of the change, the Committee agreed that the change should be deferred and be included as part of the Hong Kong Convergence project.

As regards issue 2, the Committee supported the view of the UIISC that the issue could not be resolved unless the IASB removed the reference to rental earning objective in the definition of an investment property. The Committee noted that a number of accounting firms had drawn this issue to the attention of the IASB.

As regards issue 3, the Committee noted the view of the UIISC that the revaluation reserve should follow the asset upon a transfer. Further details of the Committee’s consideration of this issue appear in the “Investment Property” item above.

As regards issue 4, the Committee noted that there was no consensus at the last meeting of the UIISC as to the treatment of transport infrastructure facilities. Given the apparent unwillingness of the IFRIC to attend to the matter, the Committee agreed to refer the matter back to the UIISC for further consideration to issue Hong Kong specific guidance on this matter.

Date of Next Meeting

The Committee’s next meeting is tentatively scheduled to be held on 15 October 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.

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