



Minutes of the 185th meeting of the Financial Reporting Standards Committee held on Tuesday, 7 September 2010 at 8:30 a.m. in the Board Room of the Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

Present: Mr. Clement Chan (Chairman)
Mrs. Catherine Morley (Deputy Chairman)
Mr. Raphael Ding
Mr. Ian Farrar
Mr. James Fawls
Mr. Paul Hebditch
Miss Fanny Hsiang
Ms. Caron Hughes
Ms. Kelly Kong
Ms. Susanna Lau
Mr. Allen Leung
Mr. William Lim
Mr. Paul Phenix (represented by Mr. Danny Choi)

In attendance: Mr. Chris Joy, Executive Director
Mr. Steve Ong, Director, Standard Setting
Ms. Winnie Chan, Manager, Standard Setting
Mr. Ambrose Wong, Manager, Standard Setting

Apologies for absence were received from Mr. Stephen Chan and Mr. Colin Chau.

	<u>Action</u>
<p>1. <u>Minutes of the 184th meeting</u></p> <p>The minutes of the 184th meeting were approved by the Committee and signed by the Chairman.</p>	
<p>2. <u>Work plan for 2010 – status report</u></p> <p>The Committee considered the status report of the Work Plan for 2010 and noted the progress made on the various projects.</p>	
<p>3. <u>Exposure Draft of Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause</u></p> <p>The Committee noted that the IFRS Interpretations Committee had discussed the Institute's request at its meeting on 3 September 2010 in relation to the current/non-current classification of a callable term loan. The Institute's request is in respect of the classification of a liability as non-current when the liability is not scheduled for repayment within twelve months after the reporting period, but may be callable by the lender at any time.</p> <p>The IFRS Interpretations Committee noted that paragraph 69(d) of IAS 1 requires that a liability must be classified as a current liability if the entity does not have the unconditional right at the reporting date to defer settlement for at least twelve months after the reporting period. The IFRS</p>	SS Dept.

Interpretations Committee also noted that IAS 1 provides sufficient guidance on the presentation of liabilities as current or non-current and it does not expect diversity in practice. Consequently, the IFRS Interpretations Committee decided not to add the issue to its agenda.

It was noted that the IFRS Interpretations Committee agreed with the conclusion of the Committee's majority view that the classification of a term loan as a current or non-current liability in accordance with paragraph 69(d) of HKAS 1 should be determined by reference to the rights and obligations of the lender and the borrower, as contractually agreed between the two parties. Therefore, in cases where a repayment on demand clause provides the lender with a clear and unambiguous unconditional right to demand repayment at any time at its sole discretion, the entire loan should be classified as current, as the existence of this right means that the borrower does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Committee discussed whether, in light of the IFRS Interpretations Committee conclusion, there was a need to issue a local interpretation or whether the IFRS Interpretations Committee rejection was sufficiently persuasive to eliminate diversity in practice. After considerable debate, the Committee agreed to issue a local interpretation to set out the conclusion of the Committee and expose it for public consultation with comments due by 29 October 2010.

[Post meeting note: The Exposure Draft was posted to the Institute's website on 8 September 2010 and can be viewed at:

http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ed-pdf-2010/sep/ed-fs-classification.pdf

The IFRIC September 2010 Update can be viewed at:

<http://www.ifrs.org/NR/rdonlyres/0DCF3D11-0231-409C-AAC3-09BBCFA1C93A/0/IFRICUpdateSEPT10.pdf>

4. **Consultation Paper on Companies Ordinance Rewrite relating to Accounts and Audit**

The Committee noted that the Institute expressed concerns in the comment letter provided to the Government's Companies Bills Team about the proposal to extend the possible use of SME-FRS to private companies/groups of any size, where members holding 75% of the voting rights so resolve and no member objects and proposed that there should be a cap on the size of the companies/groups.

The Committee considered a high level comparison between HKFRS for Private Entities and the local SME-FRF&FRS prepared by the Standard Setting Department and agreed to share the comparison with the Government, if necessary, to support the position of the Institute.

The Committee requested the Standard Setting Department to carry out further research on the size criteria of SME in other jurisdictions for the Committee's reference at the next meeting.

SS Dept.

5. **IASB Consultation Documents**

(a) IASB ED of Removal of Fixed Dates for First-Time Adopters (Proposed Amendments to IFRS 1)

The Committee agreed to prepare a submission.

(b) IFRS Interpretations Committee ED of Stripping Costs in the Production Phase of a Surface Mine

The Committee agreed that as the subject would likely be more relevant for companies with subsidiaries in China, the Committee would invite the China Advisory Group of the Institute to prepare a submission.

(Post meeting note: The Chairman has nominated Mr. Frank Lam of his firm to assist in the HKICPA submission)

(c) IASB ED of Insurance Contracts

Given specialized knowledge of the insurance industry would be helpful in commenting on the proposals, the Committee agreed to invite the Insurance Expert Panel of the Institute to prepare a submission.

(d) IASB ED of Leases

Mr. William Lim agreed to be the project convenor and will work with the Standard Setting Department in preparing the Institute's submission.

6. **IASB ED of Measurement Uncertainty Analysis Disclosure for Fair Value Measurements**

The Committee generally supported the Board's effort to improve the fair value disclosure requirements for Level 3 measurements. However, it had significant concerns about whether the proposed measurement uncertainty disclosure is operational. The Standard Setting Department was requested to prepare a revised draft submission for the Committee's consideration and endorsement by circulation.

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[Post meeting note: The Institute's submission was approved by circulation by the Committee and was forwarded to the IASB on 10 September and can be viewed at:

http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/submission-pdf/2010/sub-muad.pdf

7. **IASB ED of Proposed Amendments to IAS 19 – Defined Benefit Plans**

The Committee was divided on the proposed approach of determining the net interest income or expense component by applying the discount rate that is used to discount the defined benefit obligation to the net defined benefit liability (asset). The Committee requested the Standard Setting Department to include both the arguments of proponents and opponents in the submission and then circulate the revised submission to the Committee for approval.

SS Dept.

[Post meeting note: The Institute's submission was approved by the Committee by circulation and was forwarded to the IASB on 8 September

and can be viewed at:

[http://www.hkicpa.org.hk/file/media/section6_standards/standards/Financial Reporting/submission-pdf/2010/sub-ed-defined-benefit-pensions.pdf](http://www.hkicpa.org.hk/file/media/section6_standards/standards/Financial%20Reporting/submission-pdf/2010/sub-ed-defined-benefit-pensions.pdf)

8. Summary of IFRS Advisory Council Meeting in June 2010

The Committee noted the IASB has posted to its website a summary of the June 2010 meeting of the IFRS Advisory Council.

The summary can be viewed at:

<http://www.ifrs.org/NR/rdonlyres/00E07BAB-5916-4D61-9D08-7664BAD6C350/0/IFRSAdvisoryCouncilJune10.pdf>

9. Any other business

The Chairman advised that Mr. Ian Farrar would be resigning from the Committee after the meeting, due to his new posting to PwC India, and he would be succeeded by Ms. Shelley So of his firm. The Committee expressed a sincere vote of thanks to Mr. Farrar for his contributions during his term of service.

There being no further business, the meeting closed at 9:45 a.m.

CLEMENT CHAN
CHAIRMAN

21 September 2010