

Financial Accounting Standards Committee

Meeting summary – May 2004

The Society's Financial Accounting Standards Committee (Committee) met on 12 May 2004.

Present at the Committee's meeting were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung (Deputy Chairman), Nigel Reid (Deputy Chairman), Edward K.F. Chow, Choy Chung-foo (represented by Mr. Vingle Yuen), Raphael Ding, Tommy Fung, Robert Gibson, Andrew Huke, Tommy Tam, Ms. Rebecca Chan, Ms. Susanna Lau, Mrs. Catherine Morley, Mr. Simon Riley (HKSA Technical Director, Financial Reporting) and Ms. Elsa Ho (HKSA Assistant Director, Financial Reporting).

The Committee discussed the following items:

- ✓ Recently issued IFRS – IFRS 3 *Business Combinations*, IFRS 4 *Insurance Contracts* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- ✓ SSAP 27 *Accounting for Group Reconstructions*
- ✓ Financial Instruments – Proposed HKAS 39 based on the recently amended IAS 39 (macro hedging)
- ✓ Proposed ED/Convergence of HKFRS with IFRS

Recently issued IFRS – IFRS 3 *Business Combinations*, IFRS 4 *Insurance Contracts* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The Committee noted that the IASB has recently issued the following three IFRS:

- ✓ IFRS 3 *Business Combinations* and Amendments to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*
- ✓ IFRS 4 *Insurance Contracts*
- ✓ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The Committee considered the following specific matters, which had been raised in a previous review of these draft IFRSs:

With regard to IFRS 3, the Committee agreed not to include the specific transitional provision as originally proposed in its invitation to comment to require goodwill previously eliminated against reserves to be reinstated as an asset in the balance sheet. This is because such inclusion would not match with the transitional provision in IFRS 3 that prohibits an entity from recognising such goodwill in profit or loss on disposal. The Committee also agreed to retain the SSAP 30 specific provisions for Hong Kong incorporated companies as such companies would still be subject to the legal constraints to use the legal definition of subsidiary for the purpose of group accounts.

The Committee noted a member's concern about the complexity of calculations and disclosure requirements of the revised IAS 36 and, in the member's opinion, the inappropriateness of using weighted average cost of capital to discount future cash flows in measuring the impairment of a Cash Generating Unit held as a going concern rather than for sale.

The Committee agreed that IFRS 4 and IFRS 5 should be adopted in Hong Kong without any modifications and should become effective on or after 1 January 2005. The Committee noted that the HKSA Expert Panel on Insurance would be making a recommendation to the Committee in respect of the status or withdrawal of Statement 2.301 *Accounting for General Insurance Business* before the adoption of IFRS 4.

The Committee also agreed that, although IFRS 3 has an effective date of applying to transactions entered into after 31 March 2004, the Hong Kong equivalent of this IFRS should become effective for business combinations for which the agreement date is on or after 1 January 2005. The Committee believed that this would give users sufficient time to implement the Standard. The Committee noted that, because the effective date was defined in terms of an "agreement date", rather than accounting period, any business combinations occurring after 1 January 2005 would be dealt with under HKFRS 3, irrespective of the financial period into which those combinations fell. For example, financial statements for the year ending on 31 March 2005 would need to comply with HKFRS 3 in respect of any business combinations that had occurred in that group between 1 January 2005 and 31 March 2005, inclusive.

SSAP 27 *Accounting for Group Reconstructions*

The Committee discussed the proposed withdrawal of SSAP 27 *Accounting for Group Reconstructions* upon promulgation of the proposed Standards and Guidance for HKSA Members in the Performance of Listing Engagement (SIR series). The Committee in principle supported the proposed withdrawal of SSAP 27 but had the following comments:

- ✓ A comment letter should be sent to the Society's Accountants' Report Task Force requesting them to consider the possibility of importing into the SIR series some of the guidance currently found in the US and UK as regards the accounting for group re-organisations.
- ✓ Given that the UK legislation includes certain restrictions on merger accounting, which have not been adopted in the Hong Kong Companies Ordinance, some of the UK requirements or guidance might have been constrained and, accordingly, care should be taken when considering whether it is appropriate to adopt corresponding requirements or guidance in Hong Kong.

- ✓ The withdrawal of SSAP 27 should take effect at the same time as the SIR series becomes effective. However, if the SIR series takes effect after the new Standard based on IFRS 3 becomes effective, there would be a need to revisit the timing of withdrawing SSAP 27 as, otherwise, there could be an overlap and contradiction between SSAP 27 and the new Standard.

Financial Instruments – Proposed HKAS 39 based on the recently amended IAS 39 (macro hedging)

The Committee received and considered the IASB Amendments to IAS 39 on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk (Macro Hedging). The Committee agreed to recommend to Council the adoption of the macro hedging in HKAS 39 prior to its issue as a final Standard. The Committee noted that, even though the latest version of HKAS 39 should be published before the end of May 2004 (to allow users sufficient time to implement the Standard in time for prospective application for financial periods commencing on or after 1 January 2005), there would likely be a further revision to HKAS 39 published before the end of 2004 once the IASB's proposed amendment to IAS 39 in respect of the Fair Value Option (currently on exposure for public comment) is finalised.

Proposed ED/Convergence of HKFRS with IFRS

The Committee received a revised draft Invitation to Comment on the proposed ED/Convergence of HKFRS with IFRS and the revised EDs.

The Committee noted that the IASB had expressed an intention to discontinue proportionate consolidation. Members considered that this and the intention of the Committee to adopt whatever changes the IASB made in this respect should be highlighted in the Invitation to Comment. The Committee tentatively agreed that, for those entities that decide not to adopt proportionate consolidation in the light of the impending changes at the IASB level, they should still be able to make a one-off change when the IASB's decision on this matter becomes clear.

The Committee also noted that the regional standard setters project team on joint ventures would soon undertake a survey on joint ventures internationally. The Committee considered that input from members, in particular with regard to the types of joint ventures existing in practice, should be sought at the comment stage of the survey if not at the drafting stage.

The Committee also agreed to refer to the Urgent Issues and Interpretations Sub-Committee further consideration as to whether Interpretation 20 on calculating deferred taxes on recovery of revalued non-depreciable assets should be aligned with SIC Interpretation 21, and if so, what the potential impact would be.

The Committee targeted to finalise and issue this ED in June 2004 with a proposed effective date for accounting periods beginning on or after 1 January 2005.

Date of Next Meeting

The Committee will next meet on 14 July 2004 (the meeting scheduled originally for 16 June 2004 was cancelled).

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>.

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