

Financial Accounting Standards Committee

Meeting summary – November 2004

The Institute's Financial Accounting Standards Committee (Committee) met on 9 November 2004.

Present at the Committee's meeting were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Edward K.F. Chow, Raphael Ding, Tommy Fung, Quinn Y.K. Law, Saleem Razvi, Tommy Tam, Stephen Taylor, Ms. Rebecca Chan, Ms. Susanna Lau, Mrs. Catherine Morley, Mr. Simon Riley (HKICPA Technical Director, Financial Reporting) and Ms. Elsa Ho (HKICPA Assistant Director, Financial Reporting).

The Committee discussed the following items:

1. ED/Convergence
2. Convergence (reformatting SSAPs into HKASs)
3. Accounting Bulletin AB 4
4. Property Developers – accounting for revenue under HKAS 11 or HKAS 18

1. ED/Convergence

The Committee considered the comment letters received from the following parties in response to the Committee's invitation to comments on ED/Convergence:

- PricewaterhouseCoopers (PwC)
- KPMG
- Swire Properties
- Sun Hung Kai Properties Ltd.
- Hang Lung Properties
- Hang Lung Group Limited
- The Real Estate Developers Association of Hong Kong
- Mr. Lee Shu Yan, Simon

The comment letters are available on the [HKICPA website](#).

In considering the comment letters, the Committee agreed to include certain new transitional provisions in HKAS 40 and to remove the requirement for a professional valuation under HKAS 40 (in keeping with the requirements applying under IAS 40). The Committee also agreed the following actions to be taken to deal with some of the concerns raised in the comment letters:

HKAS 24 Related Party Disclosures

- The Committee agreed to write to the IASB raising the issue concerning an apparent anomaly in the definition of related parties.
- Subject to the reply from the IASB, the Committee agreed to consider adding in extra disclosure to deal with material transactions with entities under common joint control or common significant influence (by virtue of the holding of a shareholder) before end of this year.

HKAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions

- The Committee agreed that, in any publicity associated with the release of the final Standard, mention be made of the IASB's current project that would result in the replacement of IAS 30.

HKAS-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets

- The Committee agreed to ask an accountant from a large property company to write an article outlining all the problems that they would expect from the proposed converged HKAS-Int 21 and to raise these problems with the IASB.

HKAS 17 Leases

- The Committee agreed to raise with the IASB the concern that the changes to IAS 17 did not go far enough to permit leasehold property interest that would not otherwise satisfy the definition on an investment property to be accounted for as property, plant and equipment at valuation.
- The Committee agreed to set up a meeting with the Hong Kong Institute of Surveyors to discuss whether a consistent approach could be adopted as regards whether the lease payment could be allocated reliably between the land and building elements of the properties in Hong Kong.

- The Committee agreed to develop a paper to deal with the issues concerning the interpretation of “lease term” in respect of Hong Kong leasehold interests.

HKAS 40 Investment Property

- The Committee agreed to write to the Stock Exchange, enclosing the letter from the Real Estate Developers, requesting them to consider an amendment to the Listing Rules in respect of significant transactions following the introduction of HKAS 40.
- The Committee agreed to include in its work plan the consideration of adopting the UK Technical Bulletin on the determination of realised profits under the UK Companies Act once it has been updated and revised subsequent to the adoption of IFRS in the UK in 2005 (this is in line with the recommendation made by the Urgent Issues and Interpretations Sub-Committee during its last review of the UK Technical Bulletin).
- The Committee agreed to revert back to Mr. Kevin Stevenson (IASB Director of Technical Activities) pointing out that the reply from his staff did not answer the concern that the Institute raised regarding the inconsistency between the treatment of the change in the fair value of investment property under IAS 40 (recognised in income) and that of an available for sale investment under IAS 39 (recognised in equity).
- The Committee agreed to ask the IASB to revisit the definition of investment property in particular to remove the reference to the rental objective as this might indicate that the property is more in the nature of Property Plant and Equipment rather than an investment property.

Subject to the above, the Committee agreed to recommend Council to approve the issue of following proposed HKAS and HKAS Interpretations with effect for accounting periods beginning on or after 1 January 2005:

- HKAS 7 *Cash Flow Statements*
- HKAS 17 *Leases*
- HKAS 23 *Borrowing Costs*
- HKAS 24 *Related Party Disclosures*
- HKAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*
- HKAS 31 *Investments in Joint Ventures*
- HKAS 40 *Investment Property*
- HKAS-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*
- HKAS-Int 15 *Operating Leases – Incentives*
- HKAS-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*

The Committee also agreed that, when these HKAS and HKAS Interpretations are issued, a press conference would be held to announce the issue of these Standards and Interpretations and to summarise the actions to be followed to deal with some of the concerns raised by the commentators.

2. Convergence (reformatting SSAPs into HKASs)

The Committee received and agreed to recommend Council to approve the following HKAS and HKAS Interpretations with effect for annual accounting periods beginning on or after 1 January 2005:

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- HKAS 41 *Agriculture*
- HKAS-Int 10 *Government Assistance – No Specific Relation to Operating Activities*
- HKAS-Int 25 *Income Taxes – Changes in the Tax Status of an Enterprise or Its Shareholders*
- HKAS-Int 27 *Evaluating the Substance of Transaction Involving the Legal Form of a Lease*
- HKAS-Int 29 *Disclosure – Service Concession Arrangements*
- HKAS-Int 31 *Revenue – Barter Transactions Involving Advertising Services*
- HKAS-Int 32 *Intangible Assets – Website Costs*

The Committee considered an issue of whether transitional provisions similar to those in IAS 19 should be retained in HKAS 19 *Employee Benefits* given that SSAP 34 is already converged with IAS 19. The Committee agreed to the following approach:

- To retain (i.e. replicate) the existing SSAP 34 transitional provisions in HKAS 19 (such as to allow the excess of the transitional liability at the date of adopting SSAP 34 over the liability that would have recognised at the same date under the entity’s previous accounting policy prior to the adoption of SSAP 34 to be recognised as an expense on a straight line basis over up to two years (as three years have already lapsed) from the date of adopting HKAS 19); but also

- To include new wording in HKAS 19 that would specifically provide that the HKAS 19 transitional provisions would essentially have no effect for an entity that had previously complied with SSAP 34 (i.e. because HKAS 19 is materially the same as SSAP 34 and there is effectively no transition from SSAP 34 to HKAS 19).

3. Accounting Bulletin AB 4 – Deemed Disposals

The Committee noted that there is a conflict between paragraph 15 of AB 4 and paragraph 80 of HKFRS 3 as regards the treatment of goodwill that had previously been written off to reserves in the calculation of gains or losses on deemed disposals. Given the fact that deemed disposals and acquisition are not specifically dealt with in Standards, the Committee decided to ask the Urgent Issues and Interpretations Sub-Committee (UIISC) to consider whether an interpretation could be issued to replace AB 4 in addressing the issue of deemed disposals and acquisitions. In the case where the UIISC could not come up with a proposal on this before end of this year, the Committee would propose a withdrawal of AB 4.

4. Property Developers – accounting for revenue under HKAS 11 or HKAS 18

The Committee discussed the accounting treatment of recognising revenue arising from pre-completion contracts for the sale of development properties. There was concern as to whether the pre-completion contracts would satisfy the definition of construction contracts in HKAS 11 or SSAP 23, as appropriate, and if not, whether the stage of completion method would be acceptable under HKFRSs. In order to deal with this issue, the Committee agreed that an Interpretation would be required. The Committee therefore decided to ask the UIISC to consider developing an Interpretation with a view to issuing it with effect for accounting periods beginning on or after 1 January 2005 such that any inappropriate treatment could be corrected as from that time.

Date of Next Meeting

The Committee agreed to hold its next meeting on 17 December 2004.

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@hki CPA.org.hk.