

Financial Accounting Standards Committee

Meeting summary – September 2004

The Institute's Financial Accounting Standards Committee (Committee) met on 8 September 2004.

Present at the Committee's meeting were: Messrs. Paul F. Winkelmann (Chairman), Chan Lok Sang, Edward K.F. Chow, Raphael Ding, Tommy Fung, Philip Hilliard, Quinn Y.K. Law, Stephen Taylor, Tom Wu, Nigel Reid (represented by Mr. Paul Hebditch), 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:

- ✓ Urgent Issues and Interpretations Sub-Committee
- ✓ Revised Preface to HKFRS
- ✓ Convergence Project update

Urgent Issues and Interpretations Sub-Committee (UIISC)

The Committee considered the recommendation of the UIISC as regards the following matters referred to for its consideration:

- ✓ Deferred tax implication on the revaluation surplus of leasehold investment properties
- ✓ Determination of the lease term of a Hong Kong property
- ✓ Removal of the proposed requirement for an independent valuation under the proposed HKAS 40
- ✓ Revised transitional arrangements under HKAS 32 and HKAS 39
- ✓ Comment on IFRIC D7 and D8
- ✓ Proposed determination on infrastructure assets and hotel properties

The Committee tentatively agreed, following the finalisation of the proposed converged interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, to ask an accountant from a larger property company to write an article outlining all the problems that they would expect from the proposed change so that the Committee could consider and, where appropriate, take them to the IASB for consideration. The Committee also tentatively agreed to write to the IASB asking them to revisit the definition of investment property, in particular to remove the reference to rental seeking activities as such activities would indicate that the property is a property, plant and equipment rather than an investment property.

The Committee agreed that there appears to be a need to provide guidance on, when determining the lease term of a property in Hong Kong, whether the fact that the lease might be renewable after year 2047 should be taken into account in order to ensure consistency in practice. It was agreed that a paper should be developed on this matter for further discussion.

The Committee tentatively agreed to remove the proposed requirement of an independent professional valuation of a property to be carried at fair value under the proposed HKAS 40 in the light of the fact that there is no equivalent requirement in IAS and it would create a heavy burden in particular for smaller entities.

The Committee approved in principle the revised transitional arrangements under HKAS 32 and HKAS 39. The revised transitional arrangements would allow early adoption of the Standards and restatement of prior year figures and would give further guidance on how to deal with past hedge accounting and past derecognitions. Once the revised transitional arrangements have been approved by Council, they will be published as an update to the Members' Handbooks.

The Committee approved the draft submission on IFRIC D7 & D8. The draft submission will be made available on the HKICPA website once it has been approved by Council.

The Committee approved the guidance on the appropriate accounting policies for infrastructure facilities and hotel properties. When issued, the guidance on infrastructure facilities would specify that the sinking fund method is not an appropriate method of depreciating or amortising infrastructure assets, regardless of whether the asset (or components thereof) is classified as property, plant and equipment, intangible assets or operating lease prepayments. The guidance on hotel properties would specify that, under SSAPs, a hotel property must be accounted for under either SSAP 13 or SSAP 17 and therefore may not be presented in financial statements in a category other than either investment property or property, plant and equipment. The Committee considered that the guidance should be issued as an interpretation the authority of which is clearly specified in the Preface to HKFRS. The Committee, however, did not reach a consensus on the effective date of the guidance. Accordingly, this matter was referred to Council for consideration. *(Post meeting note: Council approved this guidance to be issued as two separate interpretations. Interpretation 22 on infrastructure assets would become effective on 1 October 2004. Interpretation 23 on hotel properties would become effective for annual accounting periods beginning on or after 1 January 2005 with earlier adoption encouraged.)*

Revised Preface to HKFRS

The Committee considered and approved the revised Preface to HKFRS that had incorporated the guidance in the recently issued IFRIC Preface that can be adapted in Hong Kong. The Committee agreed to recommend Council to approve revised Preface to HKFRS as a replacement of the existing Preface.

Convergence Project update

The Committee noted the progress on converting SSAPs into HKASs. The Committee agreed that there is no need to expose those HKASs for which the related SSAPs are already converged with IASs in all material respects ("materially converged HKASs"). These materially converged HKASs, which would be issued before end of the year, include the following:

HKAS 11 Construction Contracts
HKAS 12 Income Taxes
HKAS 14 Segment Reporting
HKAS 18 Revenue
HKAS 19 Employee Benefits
HKAS 20 Accounting for Government Grants and Disclosure of Government Assistance
HKAS 34 Interim Financial Reporting
HKAS 37 Provisions, Contingent Liabilities and Contingent Assets
HKAS 41 Agricultures
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 Transactions Involving the Legal Form of a Lease
HKAS-Int 29 Disclose – Service Concession Arrangements
HKAS-Int 31 Revenue – Barter Transactions Involving Advertising Services
HKAS-Int 32 Intangible Assets – Website Costs

Recommended Changes in Name

The Committee agreed to recommend to Council that the Committee's name be changed to "Financial Reporting Standards Committee" and that the Urgent Issues and Interpretations Sub-Committee's name be changed to "Financial Reporting Interpretations Committee".

Date of Next Meeting

The Committee will next meet on 12 October 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.