



Financial Reporting Standards Committee
Meeting summary – December 2007

The Institute's Financial Reporting Standards Committee (Committee) met on 12 December 2007.

Members of the Committee present were: Paul F. Winkelmann (Chairman), Clement Chan (Deputy Chairman), Raphael Ding (Deputy Chairman), Colin Chau, Ian Farrar, James Fawls, Susanna Lau, Li Kwok Tso, William Lim, Catherine Morley, Tommy Tam, Roland Wong and Cecilia Yam.

Secretariat staff present were: Patricia McBride, Steve Ong, Elaine Chan, Selene Ho and Winnie Chan.

The Committee discussed the following items:

1. IASB Exposure Draft of proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting*
2. IASB Exposure Draft ED 9 *Joint Arrangements*
3. IASB Exposure Draft of Proposed Improvements to International Financial Reporting Standards (IFRSs)
4. Sub-Committee and Project Working Groups – progress report
5. China, Japan and Korea Standard Setters Meeting

1. **IASB Exposure Draft of proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting***

The Committee considered a revised draft submission on the IASB Exposure Draft of proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting* revised by the secretariat taking into account comments received from a member and a draft response provided from a member firm on a confidential basis.

The Committee noted that the proposals in the exposure draft further extends the rules-based approach adopted for Hedge Accounting and deliberated on whether such an approach should be supported. After careful consideration, the Committee agreed that it would support the IASB's proposals to clarify hedge accounting but would like to include in the draft submission that in the longer term, the IASB should develop a principles-based standards for IAS 39.

The Committee also agreed to oppose the retrospective application of the proposed amendments as it was considered that the potential benefits would not outweigh the costs.

The Committee requested the secretariat to prepare a revised draft for the Committee's consideration and endorsement by circulation.

2. **IASB Exposure Draft ED 9 *Joint Arrangements***

The Committee considered a revised draft submission on the IASB Exposure Draft ED 9 *Joint Arrangements* revised by the secretariat taking into account a draft response provided from a member firm on a confidential basis.

The Committee agreed to further revise the submission by including a comment that whilst the IASB should be commended for having commenced a project with the objective "to converge in principle" with US GAAP on joint arrangements, by placing greater emphasis on the rights and obligations of the party to the joint arrangement rather than focusing on the legal structure of the joint arrangement, it had not explored adequately the practical application and implications of the accounting approach that focuses on rights and obligations. It was agreed by the Committee not to support the proposals in ED 9 until

the practical applications and implications are carefully considered.

The Committee requested the secretariat to prepare a revised draft for the Committee's consideration and endorsement by circulation.

3. IASB Exposure Draft of Proposed Improvements to International Financial Reporting Standards (IFRSs)

The Committee generally agreed that the scope of the Exposure Draft had not been appropriately set and certain of the proposed amendments had not received unanimous agreement from the IASB members. It was noted that a number of the proposed amendments might have major implications. It was agreed that the nature of the amendments should be consistent with the objective of the project and those proposed amendments which might have significant effect should be dealt with in separate projects, and not as part of the annual improvements project.

The Committee had a lengthy discussion on the Exposure Draft. A summary of the discussion and the Committee's tentative conclusions are set out as follows:

- IAS 1 Presentation of Financial Statements - It was considered inappropriate for the IASB to include the proposed additional disclosure requirements in IAS 1 in the IFRS Improvements Project.
- IAS 17 Leases - There were mixed views on the IASB's proposal to remove guidance in relation to lease of land in IAS 17. A member agreed with the proposal while some members considered that the proposed changes would be more than an "improvement" to address inconsistency within IAS 17 and would mean a significant change to the way in which land and building are accounted for at present in Hong Kong.
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance - The proposed change in IAS 20 was not considered as a big issue for Hong Kong. However, it was considered that the proposal to fair value government loans with a below-market rate of interest would create inconsistency within IAS 20 since other forms of government grants would not require mandatory accounting at fair value.
- IAS 28 Investments in Associates - The Committee agreed with the dissenting view of an IASB member on the proposed amendments to IAS 28. It was considered that the allocation of impairment losses under investments in associates would be such a difficult area that it should be dealt with in a separate project.
- IAS 38 Intangibles - It was considered that although the proposed amendments specifically address advertising and promotional expenses, they would be interpreted broadly and as a result, have a wider implication than those expected from an annual improvement.
- IAS 39 Financial Instruments: Recognition and Measurement - It was considered that the proposed amendment on the definition of a derivative under IAS 39 might potentially have an impact on a wider range of contracts and would cause confusion.
- IAS 40 Investment Property - The Committee generally agreed with the proposed amendment on IAS 40 to include property under construction or development for future use as an investment property within the scope of IAS 40. However, it was considered that more practical guidance on the determination of the fair value during the construction period should be provided.

4. Sub-Committee and Project Working Groups – progress report

a) Working Group on Full Compliance with IFRSs

It was noted that a member firm had provided assistance in preparing an analysis on the impact of the difference between IFRSs and HKFRSs and an analysis on the impact of the differences between the transitional provisions in the individual Hong Kong standards and the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. It was agreed that this matter would be discussed at the next meeting.

b) SME-FRF Sub-Committee

It was noted that the Sub-Committee met on 22 November 2007 to consider draft sections for SME-FRS on the topics of business combinations and goodwill, consolidated and separate financial statements, investments in associates and investments in joint ventures. The revision of the draft sections was in progress and will be submitted to the Committee for consideration as soon as they are ready.

5. China, Japan and Korea Standard Setters Meeting

The Chairman summarised the recent development in the national accounting standards of China, Japan and Korea and their policy towards convergence of IFRSs.

Date of Next Meeting

The Committee agreed to hold its next meeting on 9 January 2008.

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@hkipa.org.hk.

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