

Financial Reporting Standards Committee
Meeting summary – July 2007

The Institute's Financial Reporting Standards Committee (Committee) met on 11 July 2007.

Members of the Committee present were: Clement Chan (Deputy Chairman – Acting Chairman), Raphael Ding (Deputy Chairman), Colin Chau, Ian Farrar, James Fawls, Wilson Fung, Paul Hebditch, Ronald Kung, Susanna Lau, Li Kwok Tso, Catherine Morley (represented by Ms. Wincey Lam), Eymon Tsang and Cecilia Yam.

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

The Committee discussed the following items:

1. Draft submission on IASC Foundation Consultation Document of Proposed Amendments to the IASC Foundation Constitution and the Preface to International Financial Reporting Standards — *Enlarging the IFRIC*
2. Proposed HK(IFRIC) Interpretation 13 *Customer Loyalty Programmes*
3. Proposed HK(IFRIC) Interpretation 14 *HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
4. Draft IFRIC Interpretation D21 *Real Estate Sales*
5. Updated comparison between HKFRSs and IFRSs
6. SME Financial Reporting Framework Sub-Committee – Progress report
7. Proposed HKFRS/IFRS Forum – Progress report

1. **Draft submission on IASC Foundation Consultation Document of Proposed Amendments to the IASC Foundation Constitution and the Preface to International Financial Reporting Standards — Enlarging the IFRIC**

The Committee considered the Institute's draft submission to IASC Foundation prepared by the secretariat and agreed on the increase in the size of the International Financial Reporting Interpretations Committee (IFRIC). The Committee also agreed to add to the draft submission the Institute's support for the consequential increase in the quorum of the IFRIC and the number of members that can vote against a draft or final interpretation in order for it to be approved.

The Committee approved the draft submission to be submitted to the Council for approval subject to the above changes.

2. **Proposed HK(IFRIC) Interpretation 13 *Customer Loyalty Programmes***

The Committee noted that the IFRIC had recently issued IFRIC Interpretation 13 *Customer Loyalty Programmes*.

It was noted that in the Institute's submission on D20 *Customer Loyalty Programmes*, the Institute supported the accounting treatment to defer the recognition of part of the consideration received from the initial sales transaction relating to the award credits as revenue until the entity fulfils its obligation and that the final IFRIC Interpretation 13 has adopted this approach.

Accordingly, the Committee approved the draft to be submitted to Council for approval to be issued as a final interpretation with effect for annual periods beginning on or after 1 July 2008 (with earlier application encouraged).

3. **Proposed HK(IFRIC) Interpretation 14 HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

The Committee noted that the IFRIC had recently issued IFRIC Interpretation 14 *IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

It was noted that in the Institute's submission on D19 *The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*, the Institute supported that a refund of surplus or a reduction in future contributions is determined to be available if it could be realisable at some point during the life of the plan or when the plan liabilities are finally settled even if it is not realisable immediately at the balance sheet date. It was also noted that there is no significant amendment in principle in the final IFRIC Interpretation 14. The transitional requirements have been changed from retrospective application as proposed in D19 to application from the beginning of the first period presented in the first financial statements to which the Interpretation applies.

Accordingly, the Committee approved the draft to be submitted to Council for approval to be issued as a final interpretation with effect for annual periods beginning on or after 1 January 2008 (with earlier application encouraged).

4. **Draft IFRIC Interpretation D21 Real Estate Sales**

The Committee considered a draft Invitation to Comment on the IFRIC Interpretation D21 *Real Estate Sales* which was recently issued by the IFRIC for public consultation.

It was noted that the proposed Interpretation aims to standardise accounting practice among real estate developers for sales of units. Since it is in principle consistent with that of Hong Kong Interpretation 3 (HK-Int) *Revenue — Pre-completion Contracts for the Sale of Development Properties*, the Committee agreed to withdraw HK-Int 3 upon the finalisation of the proposed Interpretation.

The Committee agreed that the following points should be addressed in the draft Invitation to Comment:

- a. recognition of the remaining obligations in respect of situations in which the conditions for recognising revenue from the sale of real estate are satisfied before the entity has performed all of its contractual obligations to the buyer; and
- b. the proposal in D21 seeks to require retrospective application whereas HK-Int 3 *Revenue - Pre-completion Contracts for the Sale of Development Properties* provides a transitional provision.

The secretariat was requested to revise the draft Invitation to Comment for approval by the Committee by circulation.

5. **Updated comparison between HKFRSs and IFRSs**

The Committee received an updated comparison table between HKFRSs and IFRSs as at 1 July 2007 and approved it to be posted on the HKICPA website.

6. **SME Financial Reporting Framework Sub-Committee – Progress report**

The Committee received a summary report of the comments on the IASB ED of a proposed IFRS for SMEs raised by the SME Financial Reporting Framework (SME-FRF) Sub-Committee.

The Committee had a lengthy discussion on the SME-FRF Sub-Committee's comment. A summary of the discussions is as follows:

- While noting that the Sub-Committee had strong views on keeping a structure of two sets of financial reporting standards as it considered that three sets of financial reporting standards would cause excessive confusion to the market, it was noted that there is a general trend for other jurisdictions using IFRSs to adopt a three-tier financial reporting framework.
- Since all non-s141D companies in Hong Kong are already using HKFRSs, some members considered that there is little incentive in switching to the proposed IFRS for SMEs if it were to be adopted in Hong Kong. However, there was an alternative view that the proposed IFRS for SMEs can provide a simpler option for the small and medium-sized private companies, which preparers may prefer.
- The existing SME Financial Reporting Standard may be too simple for the private companies which are small in size but involved in complex transactions.
- It was generally agreed that the financial reporting needs and information needs of users for small and medium-sized private entities are different. It would be more appropriate to leave it to individual jurisdictions to decide where to draw the line between entities that should follow the proposed IFRS for SMEs and entities that are permitted to apply local "small GAAP".

The Committee noted that the Sub-Committee had some observations on the ED in respect of its application to small entities and it would leave it to the Committee to provide its comments in respect of the application to medium-sized entities.

The Committee directed the secretariat to prepare a draft submission on the ED on the proposed IFRS for SMEs for consideration by the Committee.

7. Proposed HKFRS/IFRS Forum – Progress report

The Committee received a draft outline programme of the proposed HKFRS/IFRS Forum. The secretariat reported that Mr. Paul Chow, the Chief Executive of The Hong Kong Exchanges and Clearing Limited, agreed to co-chair the forum with the Chairman. The Committee was requested to nominate speakers for the forum.

Date of Next Meeting

The Committee agreed to hold its next meeting on 12 September 2007.

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.

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

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