



Financial Reporting Standards Committee
Meeting summary – October 2007

The Institute's Financial Reporting Standards Committee (Committee) met on 10 October 2007.

Members of the Committee present were: Paul F. Winkelmann (Chairman), Clement Chan (Deputy Chairman), Raphael Ding (Deputy Chairman), Ian Farrar, James Fawls, Wilson Fung, Paul Hebditch, Ronald Kung, Susanna Lau, Li Kwok Tso, William Lim, Catherine Morley (represented by Wincey Lam), Estella Ng, Eymon Tsang, 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. Work plan for 2007 – progress report
2. IASB Exposure Draft of a proposed IFRS for SMEs
3. Draft Interpretation IFRIC D22 *Hedges of a Net Investment in a Foreign Operation*
4. IASB Discussion Paper *Preliminary Views on Insurance Contracts* – progress report
5. National Standard Setters Meeting and World Standard Setters Meeting

1. Work plan for 2007 – progress report

The Committee agreed to add the progress on the development of a national standard setting process and the drafting of the sections on Business Combinations and Consolidation for SME-FRS into the Work Plan for 2007.

The Committee noted that the ICAEW has recently issued a technical release TECH 02/07 "Distributable Profits: Implications of Recent Accounting Changes" which provides guidance on the implications of transition to IFRSs and the determination of realised profits and losses. It was noted that the project on developing a guidance for Hong Kong incorporated companies will be included in the Committee's work plan for 2008.

2. IASB Exposure Draft of a proposed International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)

The Committee received a revised draft submission on the IASB Exposure Draft of a proposed IFRS for SMEs which had been revised by the secretariat taking into account comments and submissions received from the following parties subsequent to the last meeting:

- comments from two Committee members on the previous draft submission;
- comments from the Small and Medium Practitioners Committee;
- submission from The Chinese General Chamber of Commerce; and
- submission from Hong Kong General Chamber of Commerce.

The Committee also noted that the secretariat was also provided with draft submissions from some member firms on a confidential basis.

The Committee discussed whether the proposed IFRS for SMEs should be a complete standalone document without cross-references to accounting policy options available in full IFRSs. Several members expressed their preferences for a complete standalone document while one member agreed with the stance provided that all accounting policy options available in full IFRSs are also available in the proposed IFRS for SMEs.

The Chairman advised his understanding from the World Standard Setters Meeting that the participants had divergent views on the proposed IFRS for SMEs. It was noted that how people defined “SME” may affect their views on the appropriateness of contents of the proposed IFRS for SMEs while the IASB continued to hold its view that “one-size-fits-all”.

The Chairman also advised that South Africa has already introduced the proposed IFRS for SMEs as a standard for all private entities.

The Committee noted that a discussion paper on the future Hong Kong Financial Reporting Framework would be developed to seek views on whether Hong Kong should adopt a two-tier or three-tier financial reporting framework upon the finalisation of the proposed IFRS for SMEs.

3. Draft Interpretation IFRIC D22 Hedges of a Net Investment in a Foreign Operation

The Committee considered a draft submission prepared by the secretariat. A member raised concerns about the proposal which allows a hedging instrument to be held by any entity within the group as it may create a risk that the foreign currency risk exposure may be hedged more than once where a single parent hedges both a direct subsidiary and an indirect subsidiary if there is a different intermediate functional currency. In addition, it may impute foreign exchange risks that do not exist within a hedging instrument.

The Committee agreed to highlight the above observation in the draft submission to the IASB.

4. IASB Discussion Paper Preliminary Views on Insurance Contracts – progress report

The Committee received a progress report from the Working Group on Insurance Contracts and noted that the Working Group had started its discussion in a number of key areas. It was noted that the Working Group would prepare a draft submission for consideration by the Committee. There was a request to send the draft submission to The Hong Kong Federation of Insurers for comments prior to its finalisation.

5. National Standard Setters Meeting and World Standard Setters Meeting

The Chairman briefly ran through the presentations given by the participants from Japan, China, Canada, India, Korea, Australia, Mexico and Australia during the World Standard Setters Meeting on the progress of their introduction of IFRSs and the IASB Work Plan in 2008.

In respect of the proposed IFRS for SMEs, he highlighted that at the World Standard Setters Meeting, there was a general understanding that the criteria for applying the proposed IFRS for SMEs would be left for each jurisdiction to decide.

The Chairman also highlighted that it is common for the territories to involve industry groups in standards development. He suggested the Committee to involve more industry working groups, e.g. the Insurance Contracts Working Group, in the future standard setting process.

The Chairman then advised that discussions at the National Standard Setters (NSS) remained at a very conceptual stage and a draft document on revenue recognition would be released in Europe by the end of the year. He also advised that the Institute would have to contribute to research into a conceptual project if it were to stay on as a member of the NSS.

Date of Next Meeting

The Committee agreed to hold its next meeting on 14 November 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.

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.

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