



Financial Reporting Standards Committee
Meeting summary – April 2008

The Institute's Financial Reporting Standards Committee (Committee) met on 1 April 2008.

Members of the Committee present were: Paul F. Winkelmann (Chairman), Clement Chan (Deputy Chairman), Raphael Ding (Deputy Chairman), Colin Chau, Ian Farrar, James Fawls, Wilson Fung, Paul Hebditch, Caron Hughes, Nelson Lam, Susanna Lau, Li Kwok Tso, Gladie Lui, Catherine Morley, Tommy Tam, Eymon Tsang and Roland Wong.

Staff present were: Steve Ong, Selene Ho, Florence Wong, Winnie Chan and Ben Lo.

The Committee discussed the following items:

1. Project on full compliance with IFRSs
2. Draft sections on group accounts to be included in the SME-FRS
3. Draft Consultation Paper on Financial Reporting by Private Companies
4. National Standard Setters Meeting
5. Draft Interpretation IFRIC D23 *Distributions of Non-cash Assets to Owners*
6. Draft Interpretation IFRIC D24 *Customer Contributions*
7. Invitation to Comment on IASB Discussion Paper – *Financial Instruments with Characteristics of Equity*
8. Referral from Professional Standards Monitoring Committee

1. Project on full compliance with IFRSs

The Committee considered a revised draft analysis on the impact of the difference between IFRSs and HKFRSs and an example note to the financial statements. The Committee agreed on certain changes raised at the meeting.

A member of the Committee suggested that the Institute should consider including a provision in HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* where adoption of the IFRS 1 would be an acceptable reason for an entity to change its HKFRS accounting policies when there is no other remedial actions available to the entity to claim compliance with IFRSs. It was agreed that this might be a longer-term project.

The Chairman emphasised that in the interim, the objective of this project is to enable the vast majority of entities that prepared financial statements in accordance with HKFRSs to benefit from the SEC's relief by going through a relatively simple exercise to achieve dual compliance with HKFRSs and IFRSs. He reiterated that the project would not solve all the problems arising from the differences between IFRSs and HKFRSs. Those entities which have a material difference between IFRSs and HKFRSs on the adoption of IFRS 1 would not be able to claim dual compliance in the mean time.

2. Draft sections on group accounts to be included in the SME-FRS

The Committee received the draft sections for SME-FRS on the topics of business combinations, consolidated financial statements, investments in associates and interests in joint ventures prepared by the SME-FRS Sub-Committee.

The Committee agreed to recommend the Sub-Committee to revise the draft sections based on the comments raised at the meeting.

The Committee requested the Sub-Committee to include a section on cash flow statements in the SME-FRS as it considered that a cash flow statement is an integral part

of a set of financial statements and information presented in a cash flow statement does provide useful information to bankers, analysts and shareholders.

3. Draft Consultation Paper on Financial Reporting by Private Companies

The Committee received a draft Consultation Paper on Financial Reporting by Private Companies. The draft Consultation Paper is seeking views and comments mainly on issues relating to a possible reporting framework for large private companies.

The Committee agreed to revise the draft Consultation Paper based on the comments raised at the meeting.

4. National Standard Setters Meeting

The Committee received a report on National Standard Setters (NSS) Meeting held in Melbourne from 27 – 28 March 2008 attended by the Chairman and the Executive Director. The meeting discussed the role of the NSS, IASB work programmes and the research being undertaken by the members including intangible assets, rate regulated operations and measurement of fair value. The Chairman expanded on each topic for the benefit of the Committee.

5. Draft Interpretation IFRIC D23 *Distributions of Non-cash Assets to Owners*

The Committee noted that the consultation period of the Invitation to Comment has ended and no response was received.

It was noted that there was a divergent view among the Committee members on the Draft Interpretation. The Chairman requested to prepare a draft submission and to circulate it to the Committee for further comment.

6. Draft Interpretation IFRIC D24 *Customer Contributions*

The Committee agreed that no submission would be prepared for the Draft Interpretation given no response was received from the business community so far and the issues would not be expected to significantly affect Hong Kong.

7. Invitation to Comment on IASB Discussion Paper – *Financial Instruments with Characteristics of Equity*

The Committee considered a revised draft Invitation to Comment on the IASB Discussion Paper on *Financial Instruments with Characteristics of Equity* which was recently issued by the IASB for public consultation.

Subject to the changes agreed at the meeting, the Committee approved the issuance of the Invitation to Comment for public consultation until 4 August 2008.

8. Referral from Professional Standards Monitoring Committee

The Committee considered a referral from the Professional Standards Monitoring Committee regarding the presentation of the gains and losses on sale of financial assets arising in the ordinary course of business in the income statement. It was noted that some preparers show sales proceeds from the sale of financial assets as revenue (gross), while others present gains and losses on disposal net in the income statement.

The Committee agreed that gains and losses arising from the disposal of financial assets must be presented net in accordance with HKAS 39 *Financial Instruments: Recognition*

and Measurement - paragraphs 26 and 55 and HKFRS 7 *Financial Instruments: Disclosures* - paragraph 20(a). The Committee therefore agreed that it is inappropriate to present gross sales proceeds as revenue. However, the Committee also noted that the standards do not preclude an entity providing additional information in the financial statements related to gross sales proceeds provided that they are not described as "revenue".

Date of Next Meeting

The Committee agreed to hold its next meeting on 6 May 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.

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

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