



Minutes of the 172nd meeting of the Financial Reporting Standards Committee held on Tuesday, 5 May 2009 at 8:30 a.m. in the Board Room of the Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

Present: Mr. Paul F. Winkelmann (Chairman)
Mr. Clement Chan (Deputy Chairman)
Mr. Colin Chau
Mr. Ian Farrar
Mr. Wilson Fung
Mr. Paul Hebditch
Miss Fanny Hsiang
Ms. Caron Hughes
Ms. Susanna Lau
Mr. William Lim
Mrs. Catherine Morley
Mr. Paul Phenix

In attendance: Mr. Steve Ong, Director, Standard Setting
Ms. Winnie Chan, Manager, Standard Setting

Apology for absence was received from Mrs. Lesley Wong.

	<u>Action</u>
<p>1. <u>Minutes of the 171st meeting</u></p> <p>The minutes of the 171st meeting were approved by the Committee and signed by the Chairman.</p> <p>The Committee agreed that in order to enable interested parties to follow its activities on a timely and transparent basis, it will publish the minutes of each meeting on the Institute's website commencing immediately.</p>	
<p>2. <u>Work plan for 2009 – status report</u></p> <p>The Committee noted the progress made on the work plan for 2009.</p> <p>The Committee agreed to make available the work plan of the Committee on the Institute's website to increase transparency.</p>	
<p>3. <u>Proposed Amendments to HKFRSs arising from IASB Annual Improvements Project</u></p> <p>The Committee noted that the IASB had recently issued amendments to IFRSs arising from IASB Annual Improvements Project.</p> <p>The Committee approved the issue of the Hong Kong equivalent of the amendments to IFRSs arising from the IASB's Improvements Project with the same effective date without modification, as part of the international convergence programme.</p> <p>In relation to the improvement amendments to IAS 17 on classification of leases of land which resulted in the removal of a rule and an exception to the general principles applicable to the classification of leases, certain members were concerned that this may result in insufficient guidance for members in Hong Kong when applying the standard given the type of land leases in</p>	SS Dept. & Committee

Hong Kong. The Committee agreed to discuss the issue with Mr. Wayne Upton, the IASB Director of International Activities to determine what type of informal guidance might be appropriate before the effective date of the amendment (i.e. annual periods beginning on or after 1 January 2010).

4. Consideration of IASB Discussion Documents

The Committee agreed that the Institute should prepare a submission on the following IASB Discussion Documents:

- (i) Discussion Paper on *Preliminary Views on Revenue Recognition in Contracts with Customers*;
- (ii) Discussion Paper on *Preliminary Views on Leases*;
- (iii) Exposure Draft on *Income Tax*;
- (iv) Exposure Draft on *Derecognition*

Working Groups would be set up to facilitate the preparation of the Institute's comment letters, where considered necessary.

[Post meeting notes: In relation to the project by the Australian Accounting Standards Board on the Discussion Paper on Initial Accounting for Internally Generated Intangible Assets which was developed as part of a National Standard Setters project, the Committee agreed that a submission would not be made by the Institute as the subject matter is not of high priority in Hong Kong.]

5. Report on the National Standard Setters Meeting

The Committee received a report on the National Standard Setters Meeting held in South Africa from 8 – 9 April 2009 attended by the Chairman and the Standard Setting Director. The Chairman briefed the Committee on the key matters. .

The report of the National Standard Setters Meeting can be viewed at:
http://www.frc.org.uk/documents/pagemanager/asb/NSS_reports/20090424-NSS_Report_April_2009_Meeting.pdf

6. Report on the IFRS Regional Policy Forum and Asian-Oceanian Accounting Standards Setters Group (AOSSG) Preparatory Meeting

The Chairman and the Standard Setting Director attended the IFRS Regional Policy Forum on 16 April 2009 and AOSSG Preparatory Meeting on 17 April 2009.

The Chairman briefed the Committee on the subjects covered at the IFRS Regional Policy Forum and outlined the speech that he had given during the forum in relation to how the IASB should respond to the credit crisis concerning matters other than amendments to specific standards.

The Chairman explained that AOSSG is a newly formed group to replace the previous China/Japan/Korea Standard Setters Group. The expanded group includes Hong Kong, Singapore, Malaysia, India, Australia, New Zealand and all other countries in the region that would like to participate in Standard Setting activities affecting the region.

It was noted that as the Asian-Oceanian Region becomes increasingly important in the global economic growth, it is necessary for accounting standard setters in the region to establish a mechanism and platform to discuss problems and share experiences in the convergence process and participation in the development of the IFRSs. At the meeting, the Group decided that fair value measurement, financial instruments, revenue recognition and financial statement presentation are the projects that are considered important for the region and working groups will be set up. The Institute has agreed to participate in all four of the projects and assist PRC MoF in the projects that they wish take a lead on such as the fair value measurement project.

The communiqué of the IFRS Regional Policy Forum can be viewed at http://kjs.mof.gov.cn/kjs/zhengwuxinxi/gongzuotongzhi/200904/t20090416_133824.html

The communiqué of the AOSSG Preparatory Meeting can be viewed at http://kjs.mof.gov.cn/kjs/zhengwuxinxi/gongzuotongzhi/200904/t20090417_134217.html

Chairman's speech can be viewed at <http://www.hkicpa.org.hk/professionaltechnical/events/international/2009/President-Speech.pdf>

7. **Report on meeting with Mr. Wayne Upton, IASB Director of International Activities**

The Chairman reported that he had discussed with the IASB Director of International Activities the following matters:

(i) **IFRS 1 and deemed cost**

Mr Wayne Upton presented a draft request to the IASB Board to amend IFRS 1 to deal with this issue which he and his staff will pursue. In addition, it was agreed that the submission would also consider including a suggestion that the proposed restricted relief that permits an entity to use revaluation basis as deemed cost in an event such as initial public offering in IFRS 1 could be applied retrospectively.

(ii) **Dual compliance with HKFRS and IFRS**

It was noted that the IASB has received the Institute's submission dated 13 March on the dual compliance issue in Hong Kong and will update the Committee when there is further progress. While our position is well understood by IASB, there are difficulties in arriving at a suitable solution.

(iii) **IAS 12 *Income Taxes* – Deferred taxation and investment properties in Hong Kong**

It was noted that based on preliminary discussion, it was considered that the proposed exposure draft might address the issue in Hong Kong where deferred tax liabilities will no longer be recognized on the revaluation of investment property given that there is no capital gains tax in Hong Kong. The Committee agreed to consider this carefully and provide their comments to the IASB by the due date of 31 July.

8. **Report to the Standards and Quality Accountability Board (SQAB)**

The Committee noted that the Standards and Quality Accountability Board (set up to replace the previous Standard-Setting Oversight Board) is formed under the new governance model of the Institute with an aim to ensure that standard setting activities are carried out by management in accordance with strategies and policies determined by Council and in the public interest.

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The Committee considered a draft report to the SQAB and made various suggestions to reflect the activities undertaken by the Committee.

9. **Referral from the Professional Standards Monitoring Committee – Functional currency**

The Committee considered a referral from the Professional Standards Monitoring Committee (PSMC) regarding a potential common misapplication of HKAS 21 *The Effects of Changes in Foreign Exchange Rates* on the determination of functional currency.

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The PSMC's view is that for those investment holding companies with their subsidiaries mainly operating in Mainland China, Renminbi may be a more appropriate functional currency for the holding company given that their primary sources of income are from Mainland China and the ability to pay dividends to shareholders will be heavily dependent on the economy of Mainland China. However, it was noted that many of the holding companies chose Hong Kong dollar as the functional currency. The PSMC considers that the key issue is that companies seemed to have applied paragraphs 10 to 12 (secondary indicators of a functional currency) rather than paragraph 9 (which deals with the primary economic environment in which an entity operates) of HKAS 21.

In addition, the PSMC also noted that there is some confusion on the concept that determination of functional currency should be at the "entity" level rather than at the "group" level, resulting in insufficient consideration given to the economies in which the subsidiaries operate.

The Committee agreed that IAS 21 does not provide specific guidance on the determination of functional currency of an investment holding company. Noting that there are divergent views, the Committee agreed that an interpretation should be sought from the IFRIC. The Chairman agreed and requested that the Standard Setting Director should also discuss this matter informally with Mr. Wayne Upton to assist in drafting the request.

There being no further business, the meeting closed at 10:30 a.m.

PAUL F. WINKELMANN
CHAIRMAN

11 May 2009