



Minutes of the 177th meeting of the Financial Reporting Standards Committee held on Tuesday, 1 December 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
Mr. Paul Phenix

In attendance: Mr. PM Kam, Institute's representative on IASB Standards Advisory Council (for items 2 and 3 only)
Mr. Chris Joy, Executive Director
Mr. Steve Ong, Director, Standard Setting
Ms. Winnie Chan, Manager, Standard Setting

Apologies for absence were received from Mrs. Catherine Morley and Mrs. Lesley Wong.

	<u>Action</u>
<p>1. <u>Minutes of the 176th meeting</u></p> <p>The minutes of the 176th meeting were approved by the Committee and signed by the Chairman.</p>	
<p>2. <u>Report on IASB Standards Advisory Council meeting on 12th & 13th November 2009</u></p> <p>Mr. PM Kam provided a verbal report on the major items discussed as follows:</p> <p>(i) <u>Overview of IASB's activities</u></p> <p>Over the last four months, the Board's work programme continues to be dominated by its response to the global financial crisis and its commitment to the projects in the MOU with FASB. The Board's objective is to have the major projects on the technical agenda completed by 30 June 2011.</p> <p>(ii) <u>Agenda post-30 June 2011</u></p> <p>The SAC members were asked to provide input that will help the Board to set the strategic direction of its agenda for post-30 June 2011. It was suggested that the IASB should make the agenda setting process more transparent and be responsive to constituents. No consensus has yet been reached. Suggested projects included the reporting of risks, conceptual framework, disclosure framework and XBRL. There was a clear desire for a period of calm and the Board should focus more on post implementation reviews.</p>	

(iii) Overview of Disclosure Framework Project

This project was added to FASB's agenda in July 2009. The objective of the project is to establish a framework to make financial statement disclosure more effective, coordinated and less excessive, and to seek ways to better integrate information provided in financial statements, MD&A and other parts of the annual report.

(iv) Update on the second part of the Constitution Review

Members of the Trustees gave an update on the comments received in the round-table discussions. Most agreed that putting some minimum timeframe for consultation in exceptional circumstances is necessary. It was suggested that a consultation period of less than 30 days would be extremely difficult for constituents when translation between languages is involved.

Mr. Kam also attended three education sessions, namely (i) Measurement and classification of financial instruments, (2) Impairment of financial instruments and (3) Leases.

3. Deferred taxation issue related to revaluation of investment properties

The Committee discussed the options proposed by the Standard Setting Department in resolving the deferred taxation issue in Hong Kong:

SS Dept.

(a) Extension of the scope of SIC-21 to cover depreciable assets on long-term leasehold land

The Committee considered that this approach is not a good solution since long-term leasehold land is still considered as a depreciable asset, and therefore the proposal is not workable.

(b) Amendment to IAS 12

The Committee generally agreed with this approach which was set out in our response letter to the recent ED on IAS 12. However, there is a concern that the proposed amendment may not be supported by the IASB as it may impose unintended consequences on other jurisdictions. In the light of the concern, the Committee suggested to revise this approach by adding a provision in the current IAS 12 that the measurement of deferred tax liabilities associated with assets measured at fair value shall not exceed the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the end of the reporting period.

(c) Specific exemption

The Committee generally did not favour the approach of introducing a rule-based exception to the principles even though this may be the only possible way to solve the issue.

The Standard Setting Department is requested to collect views from the AOSSG members, particularly New Zealand and Singapore, so as to reach a collective preferred option.

4. **Work Plan for 2009 – status report**

The Committee noted the progress made on the work plan for 2009 and agreed to submit this status report to the Standards and Quality Accountability Board.

5. **HK-Int 4 Leases – Determination of the length of Lease Term in respect of HK Land Leases**

The Committee noted that a member had sent a comment letter to the Standard Setting Department regarding the Technical Q&A on Amendments to HKAS 17 *Leases*.

SS Dept.

The Committee is of the view that the Q&A serves as a general guidance and preparers should perform their own assessment (i.e. the indicator under paragraph 10(d) of HKAS 17) when determining the classification of land lease.

Furthermore, the Committee is of the view that there is no inconsistency between the Q&A and HK-Int 4 since they are dealing with different aspects. The Q&A deals with classification of land lease as finance lease or operating lease while HK-Int 4 is developed for addressing the issue of how the length of the lease term of a Hong Kong land lease should be determined for the purpose of applying the amortization requirement.

However, the Committee agreed that the scope of the HK-Int 4 should be expanded to include a property that is classified as a finance lease as a consequential amendment arising from the HKAS 17 amendment issued in May 2009.

6. **IFRS For SMEs**

The Committee agreed with the following modifications to the IFRS for SMEs when it is introduced in Hong Kong:

SS Dept.

- Change the name of the standard from IFRS for SMEs to HKFRS for Private Entities.
- Ensure the formatting of the term “true and fair view” to replace the term “fair presentation” in HKFRS for Private Entities is consistent with HKFRS.
- Remove Section 29 *Income Tax* and replace with extant HKAS 12 *Income Taxes* together with a provision indicating that no deferred tax is to be required in relation to revaluation gains on investment properties so as to remove an anomaly currently in HKAS 12/IAS 12.
- Amend the Disclosure Checklist to ensure that it is consistent with the modifications made to the standard.

The Committee agreed that the recognition and measurement provisions contained in the extant version of HKAS 12 should be incorporated into HKFRS for Private Entities so as to make it a stand-alone document.

The Standard Setting Department was requested to revise the draft based on the comments agreed at the meeting for consideration by the Committee through circulation.

7. Roundtable on Fair Value Measurement in Tokyo

The Deputy Chairman attended a roundtable meeting on 27 November 2009 and summarized the major points discussed at the meeting as follows:

- There is a general support that fair value shall be based on market-based exit price.
- Participants discussed whether a profit margin needs to be factored into the fair value of an inventory. IASB representatives clarified that the fair value of an inventory should be measured based on the selling price less the profit margin.
- Regarding the highest and best use criterion, IASB representatives noted that participants have significant concerns on its application to the fair value of non-financial assets and liabilities and agreed that this needs further consideration.
- The final guidance may be issued by the end of 2010.

Mr. Ian Farrar supplemented that the roundtable also discussed the need for additional guidance on determining fair value in emerging markets as both the information and expertise to obtain fair value in those areas are still maturing.

8. HKFRS 9 Financial Instruments

The Committee approved the issue of the Hong Kong equivalent of IFRS 9 *Financial Instruments* with the same effective date without modification.

[Post meeting note: Members' Handbook Update No. 73 can be viewed at http://app1.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/updates/update073.pdf]

9. Submission on various IASB Exposure Drafts

The Committee ratified the submissions on various IASB Exposure Drafts that were approved by the Committee by circulation:

- (i) Exposure Draft on *Rate-regulated Activities*

http://www.hkicpa.org.hk/file/media/section6_standards/standards/Financial_Reporting/submission-pdf/2009/sub-rate-regulated-activities.pdf

- (ii) Exposure Draft of *Proposed Improvements to IFRSs*

http://www.hkicpa.org.hk/file/media/section6_standards/standards/Financial_Reporting/submission-pdf/2009/sub-ed-improvements-ifs.pdf

10. HK(IFRIC) Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

The Committee approved the issue of the Hong Kong equivalent of IFRIC Interpretation 19 with the same effective date without modification.

SS Dept.

11. **Amendments to HK(IFRIC) Interpretation 14 – Prepayments of a Minimum Funding Requirement**

The Committee approved the issue of the Hong Kong equivalent of Amendments to IFRIC Interpretation 14 with the same effective date without modification.

SS Dept.

12. **IASB ED of Proposed Amendments to IFRS 1 – Limited Exemption from Comparative IFRS 7 for First-time Adopters**

The Committee generally agreed with the proposal of the Exposure Draft and requested the Standard Setting Department to prepare a submission.

SS Dept.

13. **Requests for IFRIC interpretation – Clarification on the application of “consumption of economic benefits” in IAS 38 Intangible Assets**

The Committee requested the Standard Setting Department to prepare a letter to IFRIC to express our disagreement of their tentative decision not to take onto its agenda our request for an interpretation of IAS 38 with respect to providing guidance on whether the term “economic benefits embodied in the asset” refers to revenue generated from the asset (units of production method of amortization) or refers to the asset itself (straight-line amortization method).

SS Dept.

14. **Any other business**

The Chairman advised that he would retire from the Committee at the end of December and would be succeeded by Mr. Clement Chan. The Chairman thanked members for their excellent work and support during the year. The Committee expressed a sincere vote of thanks to the Chairman for his leadership and support provided to the Committee during his term of service.

[Post meeting note: Mr. Paul Winkelmann has tendered his resignation as Chairman of FRSC on 10 December 2009. This followed the decision by the Council at its meeting held on 9 December 2009 that the standard for private entities should not be issued immediately until further process has taken place. The Committee has earlier approved the issue of the standard for private entities with immediate effect. This put that decision on hold. In view of this, Mr. Winkelmann believes his tenure as Chairman is no longer tenable.]

There being no further business, the meeting closed at 10:20 a.m.

PAUL F. WINKELMANN
CHAIRMAN

4 December 2009