



Minutes of the 176th meeting of the Financial Reporting Standards Committee held on Tuesday, 10 November 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 (represented by Mr. Danny Choi)
Mrs. Lesley Wong

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

	<u>Action</u>
<p>1. <u>Minutes of the 175th meeting</u></p> <p>The minutes of the 175th meeting were approved by the Committee and signed by the Chairman.</p>	
<p>2. <u>IFRS for SMEs</u></p> <p>The Committee considered the paper prepared by the Standard Setting Department and agreed that generally no further consultation should be required to introduce IFRS for SMEs in Hong Kong as a reporting option given that the Institute had already consulted on the subject in 2007 and 2008 and the majority of comments received have been considered and taken up in the final IFRS for SMEs. Furthermore, the Committee also agreed that the locally developed SME-FRF&FRS would be maintained.</p> <p>It was agreed that an Information Paper should be prepared by the Institute to provide members with information on the Committee's intentions. This is subject to the outcome of our discussion with the Inland Revenue Department, The Hong Kong Association of Banks and the SMP Leadership Panel.</p> <p>In addition, the Committee also agreed with the following changes to the IFRS for SMEs when it is introduced in Hong Kong:</p> <ul style="list-style-type: none">➤ Name of the Standard – In order to differentiate the Standard from the locally developed SME-FRF&FRS, the Committee agreed that the name of the Standard be changed to “HKFRS for Private Entities” and agreed that the term “private entity” is clearly defined in the Standard and in the Basis for Conclusions.	SS Dept.

- Income Tax section – Given that the section on taxation in the IFRS for SMEs is based on the IASB ED on Income Tax which we understand will not be issued, to ensure ease of application by our members, the Committee agreed to remove that section and replace it with our extant requirements in HKAS 12 *Income Tax*.

The Standard Setting Department will work with the Chairman on the Information Paper for the Committee's further consideration.

3. **Guidance on the application of Amendments to IAS 17 Leases in the Annual Improvements to IFRS 2009**

The Committee received a summary of the information gathered from the meeting with a property valuer on 2 November 2009 and considered the revised draft technical Q&A. The Committee approved the issuance of the final Q&A.

SS Dept.

[Post meeting note: The Technical Q&A has been posted onto the Institute's website on 16 November and can be viewed at http://www.hkicpa.org.hk/file/media/section6_standards/standards/FinancialReporting/ref-material/2009/hkas17-q-n-a.pdf]

4. **Guidance on the Determination of Realized Profits and Losses in the Context of Distributions under the HK Companies Ordinance**

The Committee approved the issuance of the exposure draft of the Practice Note and Staff Summary for public comment with a two-month consultation period.

SS Dept.

The Chairman requested that the exposure draft be sent to The Law Society and Standing Committee on Company Law Reform for comments upon its issuance.

5. **Draft letter to the IASB on resolving the deferred taxation issue related to revaluation of investment properties**

The Committee considered a letter to the IASB prepared by the Standard Setting Department to reiterate the significant concern on the existing IAS 12 requirement for recognition of deferred tax liabilities on valuation gains arising in respect of investment properties held in Hong Kong that in practice will never be paid. Committee members made improvement suggestions and the Committee agreed that the letter should be sent immediately so that our suggestions and concerns can be discussed at the forthcoming IASB Board Meeting on 17 November 2009.

SS Dept.

[Post meeting note: The letter was sent to Sir David Tweedie on 10 November 2009. During the IASB Board meeting on 17 November, it was noted that several Board members encouraged the Board to broaden the scope of its work to include the most pressing issue - notably the issue of the tax effect of property revaluations that has been of concern in some jurisdictions (such as Hong Kong) for a considerable time. They argued that the revaluation issue was delayed for years due to the Income Tax project and that the Board should be responsive to needs of these jurisdictions. The Board asked a small group of its members to investigate priority issues for a short-term project and consider possibilities for short-term convergence]

6. **Draft submissions on IASB Exposure Drafts**

(a) ED on Rate-regulated Activities

Mr. Ian Farrar and Ms. Catherine Morley have indicated their concerns on the scope of the exposure draft and offered to assist the Standard Setting Department to produce a draft response for consideration by the Committee.

(b) ED of Proposed Improvements to IFRSs (Third set)

The Committee considered a discussion paper prepared by the Standard Setting Department regarding potential topics of concern received from certain committee members arising from the Exposure Draft.

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

7. **Roundtable on the Constitution Review Part 2 in Tokyo**

The Chairman attended the roundtable meeting on IASC Foundation Constitution Review in Tokyo on 21 October 2009 and summarized the major points discussed at the meeting as follows:

- There is a concern that a conflict of interest will arise if both the position of the Chief Executive of the IASC Foundation and the Chairman of the IASB is occupied by the same person.
- Sustainable funding is important for the IASC Foundation and the IASB but the funding process should not jeopardize the independence of the standard setting process.
- The fast track procedure should only be used in very rare circumstances, and should provide a reasonable period for comments (not less than 30 days).
- There should be a more active role for the SAC.
- More emphasis should be placed on the adoption of high quality global standards rather than on achieving US GAAP convergence.
- Flexibility is more important for the IASB members' term of services and should be subject to an overall maximum term while allowing members to complete key projects.

8. **Submission on IASB ED Fair Value Measurement**

The Committee ratified the submission on IASB ED *Fair Value Measurement* that was approved by the Committee by circulation.

The HKICPA submission can be viewed at:

http://www.hkicpa.org.hk/file/media/section6_standards/standards/Financial Reporting/submission-pdf/2009/Sub-fvm.pdf

SS Dept.

9. **Amendments to HKAS 32 – Rights Issues**

The Committee ratified the issuance of the amendments to HKAS 32 – *Rights Issues* that was approved by the Committee by circulation.

10. **Asian IASB Roundtable on Fair Value measurement**

The Deputy Chairman agreed to attend the roundtable meeting in Tokyo on 27 November 2009.

11. **Revised HKAS 24 – Related Party Disclosures**

The Committee approved the issue of the Hong Kong equivalent of the Revised IAS 24 *Related Party Disclosures* with the same effective date without modification.

SS Dept.

[Post meeting note: Members' Handbook Update No. 72 can be viewed at http://app1.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/updates/update072.pdf]

12. **Update on requests for IFRIC interpretation**

SS Dept.

(a) **Clarification on the application of “consumption of economic benefits” in IAS 38 Intangible Assets**

It was noted that IFRIC has discussed our request at its meeting on 5 – 6 November and decided not to add our request to its agenda. IFRIC considers that preparers must apply judgment when choosing an amortization method. The Committee agreed to decide the follow-up action after receiving the agenda rejection notice from IFRIC.

The details of the IFRIC discussion can be found by referring to the item named “IAS 38 Intangible Assets – Amortization method” under the paragraph of “Tentative agenda decision” of IFRIC Update November 2009.

<http://www.iasb.org/NR/rdonlyres/2BB630B7-8643-4AD1-828D-587A040A93EC/0/November2009IFRICUpdate.pdf>

(b) **Determination of the Functional Currency of an Investment Holding Entity**

The IASB staff informed the Standard Setting Department that due to the very tight agenda of IFRIC meeting, our request cannot be discussed in the November meeting and the IASB will provide some of their research and response on this topic later. The Committee expressed their disappointment and requested the Standard Setting Department to advise the IASB staff to put this back on the IFRIC January 2010 agenda.

13. **Report on Asian-Oceanian Accounting Standards Setters Group (AOSSG) meeting in Malaysia**

The Chairman and the Standard Setting Director attended the first AOSSG meeting on 4 – 5 November 2009 in Kuala Lumpur.

The Chairman briefed the Committee on the latest developments and the discussion summary of the following four subjects:

- (a) IAS 39 replacement
- (b) Financial statement presentation
- (c) Revenue recognition and
- (d) Fair value measurement

The communiqué, which summarizes the conclusion of the discussion, of the First AOSSG Meeting can be viewed at [http://www.hkicpa.org.hk/file/media/section6_standards/standards/Financial Reporting/pr/pr-communique-aossg-1st.pdf](http://www.hkicpa.org.hk/file/media/section6_standards/standards/Financial%20Reporting/pr/pr-communique-aossg-1st.pdf)

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

PAUL F. WINKELMANN
CHAIRMAN

19 November 2009