



Minutes of the 178th meeting of the Financial Reporting Standards Committee held on Tuesday, 2 February 2010 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. Clement Chan (Chairman)
Mrs. Catherine Morley (Deputy Chairman)
Mr. Stephen Chan
Mr. Colin Chau
Mr. Raphael Ding
Mr. Ian Farrar
Mr. James Fawls
Mr. Paul Hebditch
Miss Fanny Hsiang
Ms. Caron Hughes
Ms. Kelly Kong
Ms. Susanna Lau
Mr. Allen Leung
Mr. Paul Phenix

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

Apology for absence was received from Mr. William Lim.

1. **Welcome to new members and Committee composition for 2010**

The Chairman welcomed Mr. Stephen Chan, Mr. Raphael Ding, Mr. James Fawls, Ms. Kelly Kong and Mr. Allen Leung as new members to the Committee.

The Committee recorded a vote of thanks to Mr. Paul Winkelmann and Mr. Wilson Fung for their contributions to the Committee during the tenure of their services.

2. **Governance Rules**

The Chairman reminded the Committee members to complete their appointment letter before 26 February 2010 and drew members' attention to the policy and guidance applicable to Committee members.

3. **Minutes of the 177th meeting**

The minutes of the 177th meeting were approved by the Committee and signed by the Chairman.

4. **Proposed meeting schedule for 2010**

The Committee agreed on the following meeting dates for 2010:

2 February
2 March

Action

13 April
4 May
1 June
6 July
3 August
7 September
5 October
2 November
7 December

5. Terms of Reference and Proposed Work Plan for 2010

The Committee noted the Terms of Reference of the Committee and endorsed the work plan for 2010.

The Committee requested the Standard Setting Department to update the Committee regularly on key developments of the convergence project between ASBEs and HKFRSs and to submit a draft of publications to be issued by the HKICPA, which contain interpretative guidance or views on the application of HKFRSs, to the Committee for clearance before their issuance.

6. IFRS For SMEs

The Chairman updated the Committee that the Council had issued a Statement of Intent on 19 January 2010 indicating that it intends to adopt the IFRS for SMEs in the form of HKFRS for Private Entities with some modifications as a reporting option. The Chairman explained that if no unforeseen issues are identified during the commentary period to 31 March, the HKFRS for Private Entities will be issued on 30 April 2010 and effective upon issuance.

The Committee requested the Standard Setting Department to write a letter to the IASB explaining why we are replacing Section 29 *Income Tax* (details of which are set out in the Statement of Intent) with the extant version of IAS 12 *Income Taxes* as modified for the deferred taxation on valuation gains arising in respect of investment properties. The letter should note that we are departing from our general policy of adopting materials issued by the IASB without modification and that we do not do so lightly and hope the difference can be eliminated the next time that the IFRS for SMEs is updated. The Standard Setting Department is requested to prepare a draft letter for the Committee's consideration and endorsement by circulation.

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[Post meeting note: The letter was sent to Sir David Tweedie on 10 February 2010 after the Committee's approval by circulation.]

7. IFRIC agenda decision on HKICPA Requests for Interpretation

(a) IAS 38 *Intangible Assets* – Amortisation method

It was noted that the IFRIC concluded at its meeting in January 2010 that it would not be able to reach a consensus on the issue on a timely basis and decided not to add the issue to its agenda. The Committee agreed not to pursue further on this matter.

A member requested the Standard Setting Department to consider whether HK-Int 1 *The Appropriate Accounting Policies for*

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Infrastructure Facilities, which was developed locally in 2004, could now be withdrawn given that the IASB Annual Improvements Project had generally addressed the guidance provided in HK-Int 1 and the IFRIC confirmed that judgment is required in determining the amortization method. The Standard Setting Department is requested to bring back proposals for the Committee's consideration at the next meeting.

- (b) IAS 21 *The Effects of Changes in Foreign Exchange Rates – Determination of functional currency of an investment holding company*

It was noted that the IFRIC tentatively decided at its January meeting not to add the item to its agenda based on the conclusion that determination of functional currency of any company required the use of judgment and must be based on all the facts and circumstances. The Committee had a lengthy debate on whether a letter to IFRIC should be prepared to express disagreement of their tentative decision. One view of certain members of the Committee was that the IFRIC did not address the issue of how to determine a functional currency of an investment holding company in its tentative agenda decision. The alternative view of certain members of the Committee was that the reasons set out by the IFRIC were clear. The Chairman called for a vote on that resolution. The vote not to comment on the IFRIC rejection was passed 7 votes to 6. 3 members of the Committee dissented from the final decision of the Committee on the basis that the tentative IFRIC agenda decision, taken together with the IFRIC staff paper, will lead to increased diversity in practice in the absence of any interpretative guidance on the application of IAS 21 to investment holding companies.

8. **HKICPA Exposure Draft on Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the HK Companies Ordinance**

The Standard Setting Director reported that the consultation of the exposure draft ended on 29 January 2010 and a total of 10 submissions were received. A Working Group meeting would be organized in late February to further discuss the issues highlighted in the submissions and comments received from Committee members. The Working Group would report to the Committee with recommendations as to how to deal with the specific comments at the next meeting in March.

Working Group

9. **IASB ED on Management Commentary**

The Committee considered the draft submission prepared by the Standard Setting Department with reference to a submission received on the Invitation to Comment. The Committee generally agreed that the proposed IASB document should contain only non-mandatory guidance for preparers, and that it would be up to the securities regulators in each jurisdiction to make the decision whether the IASB guidance should be mandatory. The Standard Setting Department is requested to prepare a revised draft for the Committee's consideration and endorsement by circulation.

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10. Consideration of IASB Discussion Documents

The Committee agreed that the Institute should prepare a submission on the following IASB Exposure Drafts:

- (i) Exposure Draft of Proposed Amendments to IAS 37 – Measurement of Liabilities in IAS 37; and
- (ii) Exposure Draft on Financial Instruments: Amortised Cost and Impairment

A Working Group would be set up for item (ii) to facilitate the preparation of the Institute's submission. Mr. Stephen Chan, Mr. Raphael Ding and Mr. James Fawls had volunteered to join the Working Group.

It was agreed that additional Working Group members from commercial banks should be invited.

11. Ranking IASB projects by priority for NSS discussion

The Committee agreed that the top priority for the IASB this year, as far as the HKICPA is concerned, is to resolve the deferred taxation issue on valuation gains arising in respect of investment properties. The Chairman requested the Standard Setting Department to revise the priority ranking into "high", "medium" or "low" with the reasons why and then circulate it to the Committee for comment.

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12. Amendments to HKFRS 1 – Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters

The Committee approved the issue of the Hong Kong equivalent of Amendments to IFRS 1 with the same effective date without modification.

There being no further business, the meeting closed at 10:15 a.m.

CLEMENT CHAN
CHAIRMAN

10 February 2010