



Minutes of the 187th meeting of the Financial Reporting Standards Committee held on Tuesday, 2 November 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. James Fawls
Mr. Paul Hebditch
Miss Fanny Hsiang
Ms. Caron Hughes
Ms. Kelly Kong
Ms. Susanna Lau
Mr. Allen Leung
Mr. William Lim
Mr. Paul Phenix
Ms. Shelley So

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

| | <u>Action</u> |
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| <p>1. <u>Minutes of the 186th meeting</u></p> <p>The minutes of the 186th meeting were approved by the Committee and signed by the Chairman.</p> | |
| <p>2. <u>Exposure Draft of HK Interpretation 5 <i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i></u></p> <p>The comment period of the Exposure Draft ended on 29 October 2010. The Committee noted that a total of 14 written comment letters were received. It was noted that most of the comments received from users of financial statements generally agreed with the conclusion set out in the draft Interpretation. However, certain comment letters, in particular those submitted by corporates and preparers of financial statements disagreed with the conclusions and therefore did not support issuing such an Interpretation.</p> <p>The Committee noted the strength of response to the draft Interpretation, both for and against its conclusions. Given the diversity of views received and noting that the issue has widespread implications for financial reporting in Hong Kong, on balance the Committee decided that the issuance of an Interpretation would be the most effective way of ensuring a common understanding of the requirements of HKAS 1 <i>Presentation of Financial Statements</i>, and would therefore contribute to ensuring continuing consistency of application and full convergence with IFRSs.</p> | SS Dept. |

Furthermore, the IFRS Interpretations Committee discussed this issue at its meeting on 3 September 2010 and noted that paragraph 69(d) of IAS 1 requires that a liability must be classified as a current liability if the entity does not have the unconditional right at the reporting date to defer settlement for at least twelve months after the reporting period. The IFRS Interpretations Committee confirmed its view in the agenda decision which was published in the November 2010 edition of IFRIC Update. Given the convergence of HKAS 1 and IAS 1, the Committee considered that the view of the IFRS Interpretations Committee would need to be regarded as the appropriate conclusion under HKFRSs.

In order to address the concerns expressed by certain commentators, the Committee proposed to send a standard reply letter to all commentators who have submitted written comment letters objecting to the conclusion to explain the basis for the conclusion and why it is important for the Institute to issue the Interpretation. The letter will also be made accessible on the Institute's website.

The Committee also requested the Standard Setting Department to alert the Auditing and Assurance Standards Committee (AASC) of the comments received and to consider any audit-related implications of the Interpretation.

The Committee agreed that Council's endorsement of its decision should be sought. It was proposed that the Interpretation is issued by the end of November 2010.

[Post meeting notes: The Chairman and Deputy Chairman of the Committee met with the following stakeholders to explain the rationale behind the issuance of the Interpretation:

- *The Chamber of Hong Kong Listed Companies*
- *Hong Kong Association of Banks*
- *Hong Kong Institute of Directors*
- *Securities & Futures Commission*
- *The Stock Exchange of Hong Kong Ltd.*
- *Hong Kong Monetary Authority*
- *Office of the Commissioner of Insurance*
- *Hong Kong Society of Financial Analyst*

The proposed HK Interpretation 5 was approved by Council on 23 November 2010 for issuance as a final Interpretation.]

The IFRIC Update November 2010 Edition can be viewed at
www.ifrs.org/Updates/Updates.htm

The comment letters received on the Exposure Draft of HK Interpretation 5 can be viewed at
<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/financial-reporting-submissions/2010/cl-hk-int-5/>

The Letter from FRSC to commentators can be viewed at
http://www.hkicpa.org.hk/file/media/section6_standards/technical_resources/pdf-file/smp-sme/2010/dec/hk-int5.pdf

3. **IASB Exposure Draft of Proposed Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets**

The Committee considered the draft submission prepared by the Working Group and generally agreed that the proposals in the Exposure Draft would provide a practical solution to the issue currently faced in Hong Kong relating to deferred tax arising on investment properties stated at fair value. Although some members suggested certain improvements to the IASB's proposals, in order not to further delay the issuance of the final amendments to IAS 12, the majority of the Committee agreed that the Institute should express a full support in the submission.

[Post meeting notes: The Institute's submission was forwarded to the IASB on 8 November 2010 and can be viewed at:

http://www.hkicpa.org.hk/file/media/section6_standards/standards/Financial Reporting/submission-pdf/2010/sub-deferred-tax.pdf]

4. **IASB Consultation Documents**

The Committee agreed that the Institute should prepare a submission on the following IASB consultation documents if comments were received from constituents:

- (i) Exposure Draft of *Severe Hyperinflation (Proposed Amendments to IFRS 1)*
- (ii) Request for Views on *Effective Dates and Transition Methods*

5. **IVSC Roundtable in Hong Kong on 12 November 2010**

The Committee noted that Mr. Yin Toa Lee of Ernst & Young, Convenor of HKICPA Valuation for Financial Reporting Working Group would represent the Institute to participate in the roundtable on proposed new international valuation standards organized by the International Valuation Standards Council (IVSC) on 12 November 2010.

6. **Research on Control Notion for Revenue Recognition by the Accounting Standards Council of Singapore**

The Committee noted that the Accounting Standards Council of Singapore would undertake an academic research on the control notion proposed by the IASB for revenue recognition to ensure that its principles can be applied to all types of contracts with customers within the Asia-Oceanian region. In order to show support of the AOSSG activities, the Committee agreed to participate in this research.

7. **HKFRS 9 for Financial Liability Accounting**

The Committee approved the issue of the Hong Kong equivalent of the IFRS 9 *Financial Instruments* with new requirements on the accounting for financial liabilities with the same effective date without modification.

SS Dept.

There being no further business, the meeting closed at 9:50 a.m.

Action

26 November 2010

CLEMENT CHAN
CHAIRMAN