



香港會計師公會

HONG KONG SOCIETY OF ACCOUNTANTS

(Incorporated by the Professional Accountants Ordinance, Cap. 50)

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**16 December 2002**

**To: HKSA members  
Finance Directors of listed companies  
All other interested parties**

**INTERNATIONAL ACCOUNTING STANDARDS BOARD EXPOSURE DRAFT, ED 3:  
“BUSINESS COMBINATIONS” AND RELATED AMENDMENTS TO IAS 36,  
“IMPAIRMENT OF ASSETS” AND IAS 38, “INTANGIBLE ASSETS”**

The International Accounting Standards Board (IASB) has issued an exposure draft of a proposed new International Financial Reporting Standard (IFRS), “Business Combinations”. The proposed IFRS would replace IAS 22, Business Combinations (IAS 22 is broadly equivalent to Hong Kong Statement of Standard Accounting Practice (SSAP) 30). The IASB has also issued exposure drafts for related amendments to IAS 36, “Impairment of Assets” (SSAP 31) and IAS 38, “Intangible Assets” (SSAP 29).

The changes proposed in the exposure drafts are far reaching. Summaries of the proposals are provided in the exposure drafts:

- The significant features of the proposed new IFRS are summarised on pages 12 - 14 of ED 3.
- A summary of main changes to IAS 36 appear on pages 14 - 19 of ED/Amendments to IAS 36 & 38.
- A summary of main changes to IAS 38 appear on pages 168-171 of ED/Amendments to IAS 36 & 38.

A copy of the IASB’s press release and exposure draft has been posted on the Hong Kong Society of Accountants (HKSA) web site at

<http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/>. The IASB’s press release and exposure draft can also be found on-line at: <http://www.iasb.org.uk>.

The HKSA Financial Accounting Standards Committee (FASC) invites comments on the IASB’s exposure drafts from any interested party and would like to hear from both those who do agree and those who do not agree with the proposals contained in the exposure draft. Comments should be supported by specific reasoning and should preferably be submitted in written form.

Following from the IASB’s final approved Standard, the FASC intends to recommend the adoption of a new Hong Kong Financial Reporting Standard on business combinations, and the revision of SSAP 29 and SSAP 31, so that Hong Kong’s financial reporting standards maintain conformity with the IASB’s Standards.

The FASC will not issue a specific Hong Kong exposure draft on the matters covered in the IASB exposure draft unless any changes made by the IASB to the exposure draft are so significant as to warrant, in the opinion of the FASC, seeking further comment.

In addition to the IASB’s ‘Invitation to Comment’ the FASC has raised an issue on the next page on which views are sought from commentators in Hong Kong.

To allow your comments on the exposure draft to be considered and included in the HKSA’s response to the IASB, the FASC requests your comments on the accompanying exposure draft by **15 March 2003**.

Comments may be sent by mail, fax or e-mail to:

Deputy Director, Accounting  
Hong Kong Society of Accountants  
4<sup>th</sup> floor Tower Two, Lippo Centre  
89 Queensway  
Hong Kong

Fax number (+852) 2865 6776  
E-mail: [commentletters@hksa.org.hk](mailto:commentletters@hksa.org.hk)

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

## **ADDITIONAL MATTER FOR COMMENTATORS IN HONG KONG**

### **Goodwill arising on acquisition – Additional transitional arrangements from the present SSAP 30 to a new Hong Kong Financial Reporting Standard (HKFRS)**

SSAP 30 became effective for financial statements covering periods beginning on or after 1 January 2001. That SSAP specified a transitional provision for goodwill (and negative goodwill) that arose in periods before SSAP 30 took effect and which had been taken to (and carried in) reserves as a matter of accounting treatment (that is, written off against reserves). SSAP 30 encouraged, but did not require, such goodwill (and negative goodwill) to be restated on the balance sheet. In cases where an enterprise chose not to restate goodwill (or negative goodwill), such goodwill remained carried in reserves and was accounted for and reported under the requirements of Interpretation 13, “Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”. The accounting and financial reporting requirements specified in Interpretation 13 are not permitted under either IAS 22 currently or the proposals contained in ED 3.

The FASC considers that the underlying principle in transition to a revised Business Combinations SSAP should be that the Hong Kong equivalent of the new IFRS should apply on a basis that is converged with the IFRS, and that goodwill be subject to only one accounting treatment going forward (currently there are at least 2 treatments in Hong Kong, depending on when the goodwill arose).

The FASC further considered that:

- Goodwill (negative goodwill) currently reported as an asset (liability or contra asset) in financial statements prepared in accordance with Hong Kong SSAPs should, at the date of adoption of the new HKFRS, be subject to the same transitional provision proposed in ED 3 and be measured at its carrying amount (that is, original gross carrying amount less accumulated amortisation less accumulated impairment losses);
- Goodwill previously taken to reserves as a matter of accounting treatment, which was not restated because of reliance on the transitional provisions of SSAP 30, should be reinstated as an asset on the balance sheet at its carrying amount (that is, the original amount less accumulated impairment losses as required under SSAP 31 and Interpretation 13) at the date of adoption of the new HKFRS; and
- Negative goodwill previously carried in reserves, and which prior to the application of the new HKFRS was reported under the requirement of Interpretation 13 paragraph 7, shall be derecognised in accordance with paragraph 80 of the ED.

Accordingly, the FASC proposes a transition provision from SSAP 30 to the new HKFRS along the above lines.