

Financial Accounting Standards Committee

Meeting summary – March 2003

The Society's Financial Accounting Standards Committee (Committee) met on 12 March 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Paul F. Winkelmann (Deputy Chairman), Edward K.F. Chow, William Crowe, Raphael Ding, Tommy Fung, Robert Gibson, Philip Hilliard, Nigel Reid, Stephen Taylor, Ms. Susanna Lau, Ms. Olivia Cheung, Ms. Sally Wong, Mr. Simon Riley (HKSA Deputy Director, Accounting) and Ms. Elsa Ho (HKSA Assistant Director, Accounting).

The Committee discussed the following items:

- ✓ Proposed revision of SSAP 13, Accounting for Investment Properties, based on IAS 40, Investment Property
- ✓ Proposed ED/Preface – consideration of legal advice
- ✓ Proposed Revised Framework for the Preparation and Presentation of Financial Statements
- ✓ Proposed SSAP based on IAS 29, Financial Reporting in Hyperinflationary Economies
- ✓ IASB's ED 3, Business Combinations
- ✓ SSAP 34 treatment of Long Service Payments
- ✓ Profits tax rate change announcement – impact on deferred tax in 31 December 2002 financial statements

Proposed revision of SSAP 13, Accounting for Investment Properties, based on IAS 40, Investment Property

The Committee agreed to proceed with proposals to revise SSAP 13 based on IAS 40, but without adopting the IAS 40 treatment of reporting changes in fair value through the income statement.

The Committee also noted that the revision of SSAP 13 based on IAS 40 would allow the 'transfer between categories of assets' provisions currently appearing in SSAP 17, which have given rise to implementation issues, to be removed from SSAP 17 and included in SSAP 13.

Proposed ED/Preface – consideration of legal advice

The Committee considered the advice received from the lawyer, specifically on proposed paragraphs 35 and 36 and the suggested revision of certain wording used in paragraph 19 of the proposed ED/Preface. Subject to a replacement of a certain Latin term used with some "plain English" wording, the Committee accepted all the changes proposed to the Committee's suggested revised wording. However, the Committee agreed that some clarification should be sought from the lawyer during the consultation period on the rationale behind proposing the revision to paragraph 19. Accordingly, the ED/Preface to be issued would not take into account the proposed change to paragraph 19 but the issue would be considered further at the conclusion of the comment period and after consulting with the lawyer.

Following from the Committee's previous decision that future accounting statements based on International Financial Reporting Standards would be named "Hong Kong Financial Reporting Standards" (HKFRS) rather than SSAPs, the Committee agreed that a statement should be added to the ED/Preface stating, when a reference is made to HKFRS, it would include SSAPs and this would continue to apply until SSAPs are completely superseded by HKFRS.

The Committee agreed to recommend that the ED/Preface be exposed for a three-month consultation period. Once issued, the ED/Preface will be available on the HKSA website at <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft>.

Proposed Revised Framework for the Preparation and Presentation of Financial Statements

The Committee considered three comment letters received in respect of the Exposure Draft of a Proposed Revised Framework for the Preparation and Presentation of Financial Statements ("Proposed Revised Framework").

The comment letters raised substantive points in relation to the alignment of the Hong Kong Framework with the current version, but outdated, IASB Framework and the recognition that a wide range of users would use financial statements for making economic decisions.

In view of the Society's convergence policy and given there is no fixed timetable for the revision of the IASB Framework, the Committee did not consider the points raised should necessitate a change to the Proposed Revised Framework. The Committee also noted that an article would be published in The Hong Kong Accountant following promulgation of the revised Framework:

- (a) to highlight the reasons for revising the Framework; and
- (b) to advise the likelihood of further revision being made to the Framework pending the IASB's concepts projects currently in progress.

The Committee agreed to recommend that Council approve the Proposed Revised Framework, unamended from the exposure draft.

Proposed SSAP based on IAS 29, Financial Reporting in Hyperinflationary Economies

The Committee noted that one comment letter was received in respect of the Exposure Draft of a Proposed SSAP based on IAS 29, Financial Reporting in Hyperinflationary Economies. The comment letter will be made available on the HKSA website.

Since the proposed SSAP has taken into account the consequential amendments to IAS 29 proposed in the IASB's Improvements Exposure Draft, the Committee agreed to hold the proposed SSAP in abeyance until the finalisation of the IASB's Improvements Exposure Draft before seeking Council's approval to issue the proposed SSAP as a final Statement.

The Committee agreed that an article should be prepared to give direction on where to look for information about which economies are considered to be hyperinflationary.

IASB's ED 3, Business Combinations

The Committee continued its deliberation of an initial draft comment letter on ED 3. The Committee agreed that a sub-group would convene prior to the end of March to consider comments received on the Committee's Invitation to Comment and to finalise the Society's comment letter to the IASB.

SSAP 34 treatment of Long Service Payments

The Committee considered a matter raised over the classification of long service payments as "other long-term employee benefits" as required currently under SSAP 34 paragraph 162.

The Committee agreed that, according to their nature, long service payments should be accounted for as "post employment benefits". The Committee noted that the main difference between this and treatment as "other long-term employee benefits" is that the latter does not allow preparers to take advantage of the "corridor" provision and the transitional provision as available for "post employment benefits" under paragraphs 92 and 155 of SSAP 34.

The Committee agreed to make appropriate changes to paragraph 162 of SSAP 34 effective for accounting periods beginning on or after 1 January 2003.

Profits tax rate change announcement – impact on deferred tax in 31 December 2002 financial statements

The Committee agreed to publish a bulletin in the next available TechWatch that the proposed change in profits tax rate from 16% to 17.5% announced on 5 March 2003 should be treated as a non-adjusting event for calculating deferred tax for financial statements covering periods ending before that date.

Date of Next Meeting

The Committee's next meeting is tentatively scheduled to be held on 11 April 2003.

This meeting summary is provided for the information and convenience of those who wish to follow the Committee's deliberations. Except where indicated otherwise, all conclusions reported are tentative and may be changed at future meetings.

The IASB publishes summaries of its meetings and projects. These can be found on the IASB's website at <http://www.iasb.org.uk>.

The Committee welcomes comments on its technical agenda. Please e-mail us at commentletters@hksa.org.hk.