

Financial Accounting Standards Committee

Meeting summary – September 2002

The Society's Financial Accounting Standards Committee (Committee) met on 11 September 2002 and discussed the following items:

- ✓ Deposit-taking, Lending and Securities Activities – the IASB's proposed revision of IAS 30
- ✓ ED/Interpretation 19, "Intangible Assets – Website Costs"
- ✓ The Committee's draft comment letter on the IASB's Exposure Draft of Proposed Improvements to International Accounting Standards

Deposit-taking, Lending and Securities Activities

The Committee considered latest developments in the IASB's project, "Deposit-taking, Lending and Securities Activities".

The IASB's project had previously been referred to as "Activities of Financial Institutions: Disclosures and Presentation" but, while the change in project title would appear to be more consistent with the activity-based focus of the proposed standard (rather than one focussed on a particular category of entity), the project scope continues to be the development of a new IFRS to replace IAS 30, *Disclosures in Financial Statements of Banks and Similar Financial Institutions*.

The current IAS 30 applies on an "enterprise basis" and is limited to banks and similar financial institutions one of whose principal activities is to take deposits and borrow with the objective of lending and investing and which are within the scope of banking or similar legislation.

At present there is no Hong Kong SSAP equivalent to IAS 30 but a number of financial reporting disclosure requirements broadly equivalent to IAS 30 are specified by the Hong Kong Monetary Authority (HKMA) in the Supervisory Policy Manual, Module FD-1, "Financial Disclosure by Locally Authorised Institutions" (FD-1).

These requirements, however, apply only to those entities under the HKMA's regulatory jurisdiction and not necessarily to all entities that engage in deposit-taking and lending activities and which prepare financial statements in accordance with Hong Kong SSAPs.

A proposed new IFRS on deposit-taking, lending and securities activities would primarily be a disclosure-based standard (as is the present IAS 30) but would apply to *any* entity that takes deposits, grants credit or provides other financing or investment services, whether or not those are part of the enterprise's primary activities. The standard would apply solely in respect of such activities.

The IASB's project – and eventually a Hong Kong SSAP that is converged with the revised IAS 30 – will affect, among others:

- ✓ Banks and other financial institutions (whether or not regulated and supervised as banks) that:
 - take deposits,
 - grant credit,
 - provide other lending or financing services, or
 - provide securities investment services; and
- ✓ Consolidated financial statements that include at least one subsidiary that is a bank or similar financial institution, even if the parent company is not a bank or similar financial institution.

The main proposals under consideration by the IASB centre on:

1. The elimination of redundant requirements in IAS 30. IAS 30 has largely been unchanged since it was first approved in 1990. Since then a number of standards, most notably the standards on financial instruments, have guidance on matters such as the offsetting of assets and liabilities, disclosures about fair values, maturities of assets and liabilities and concentrations of credit risk;
2. Bringing the existing requirements up to date, in response to developments in the deposit-taking and lending industry; and
3. Enhancement of disclosures that supplement the balance sheet and income statement and those that provide information on risk exposure, including asset quality and capital adequacy.

To date the IASB has arrived at tentative conclusions in the following specific areas:

- Fixed reporting formats should not be prescribed but, rather, certain minimum line items on the face of the balance sheet and income statement and note disclosures should be required in respect of an entity's deposit-taking and lending activity. This is especially relevant when an entity or a consolidated group also undertakes business of an unrelated nature. Coordination with the IASB's Reporting Performance project would also be necessary.
- Disclosure should be required about the composition of financial assets and financial liabilities and items of revenue and expense arising from deposit-taking and lending activities. In particular, when an entity undertakes a securities activity for

which it has fiduciary responsibilities (for example, handling customer or client funds on trust) – and such funds are appropriately excluded from the entity’s balance sheet – a note disclosure would be required of the aggregate amount of such funds held in trust.

- Disclosure of narrative information and quantitative data about risk management policies and the entity’s exposure to credit risk, liquidity risk and cash flow interest rate (price) risk should be provided within the scope of the financial statements (rather than as part of the Management Discussion and Analysis section of an annual report) and such requirements should be both consistent with and supplementary to the requirements of IAS 32.
- Disclosure of information about the entity’s solvency risk and operational risks – specifically in relation to deposit-taking and lending activities – may be more appropriately provided outside of the financial statements.

The Committee noted that the HKMA had recently issued a consultation draft revision to its requirements on Financial Disclosure by Locally Incorporated Authorised Institutions (LI) (available at: <http://www.info.gov.hk/hkma/eng/bank/spma/attach/FD-1-C.pdf>) and noted the following proposed new paragraphs on corporate governance:

- 3.2.1 *LI should include a statement on the extent of compliance with the guideline CG-1 “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the HKMA and the reason for any non-compliance. In cases of full compliance throughout the financial year, a general statement to that effect should be made. In case of partial compliance, the statement should specify the details of, and reasons for, the non-compliance.*
- 3.2.2 *LI should disclose the roles, functions and compositions of key specialised committees established under the Board of Directors. Typical specialised committees include the Executive Committee, Credit Committee, Asset and Liability Committee and Audit Committee.*
- 3.2.3 *LI are encouraged to disclose the major areas or topics reviewed and discussed by the Audit Committee during the financial year.*

The Committee noted that it was unclear from the IASB’s project information supplied thus far as to whether they are considering adding in corporate governance disclosure requirements into the ED. The Committee agreed to approach the IASB to bring to their attention the HKMA’s proposed new disclosure requirements and to gauge whether the IASB are considering including corporate governance disclosures in their ED.

The IASB’s project timetable currently is to issue an Exposure Draft in the 1st quarter of 2003 and finalise a Standard in the 2nd half of 2003. The Committee tentatively agreed in principle to issue an Invitation to Comment on the IASB’s exposure draft when that is published.

ED/Interpretation 19, “Intangible Assets – Website Costs”

The FASC considered comment letters received in respect of the Exposure Draft Interpretation 19, “Intangible Assets – Website Costs”. Comment letters were received from:

- ✓ The DTC Association
- ✓ Hong Kong Monetary Authority
- ✓ Hong Kong Institute of Vocational Education
- ✓ K T Yeung & Co CPAs

On consideration of the comments raised, the Committee determined to recommend to the HKSA Council approval of the Interpretation unamended from the exposure draft and that the Interpretation become effective from the date of Council’s approval. The comment letters will be made available on the HKSA website.

The Committee’s draft comment letter on the IASB’s Exposure Draft of Proposed Improvements to International Accounting Standards

The FASC considered comment letters received from the following, in response to the Committee’s Invitation to Comment on the IASB’s Exposure Draft of Proposed Improvements to the International Accounting Standards:

- ✓ ACCA
- ✓ Argos
- ✓ Au Yuet Shan
- ✓ Chan, Suzanne
- ✓ Ernst & Young
- ✓ Hang Lung Properties Limited
- ✓ Hong Kong Monetary Authority
- ✓ Hysan Development Co. Ltd.
- ✓ KPMG
- ✓ New World Development Company Limited
- ✓ PricewaterhouseCoopers
- ✓ Sun Hung Kai Properties Ltd

- ✓ The DTC Association
- ✓ The Hong Kong Institute of Surveyors
- ✓ The Real Estate Developers Association of Hong Kong
- ✓ Yu Tai Tei

The comment letters, which will be made available on the HKSA website, raised substantive points in relation to the proposals contained in the IASB's exposure draft and the specific areas for comment raised in the FASC's Invitation to Comment.

The Committee finalised its consideration of a comment letter in response to the IASB's exposure draft and agreed to make the comment letter available on the HKSA website at <http://www.hksa.org.hk/professionaltechnical/accounting/submissions/>.

Date of Next Meeting

The Committee's next meeting is scheduled to be held on 16 October 2002.

This meeting summary is provided for the information and convenience of those who wish to follow the Committee's deliberations. 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.