

# Financial Accounting Standards Committee

## Meeting summary – April 2003

The Society's Financial Accounting Standards Committee (Committee) met on 11 April 2003.

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

The Chairman welcomed Messrs. Andrew Huke and Tommy Tam to their first meeting as members of the Committee.

The Committee noted that the HKSA had sent a comment letter to the IASB on ED 3, Business Combinations, and the proposed revision of IAS 36 and IAS 38 and that a copy of the comment letters are available on the HKSA website. The Committee also discussed the following items:

- ✓ Proposed revision of SSAP 13, Investment Properties
- ✓ Referral from Accountants' Report Task Force (ARTF)
- ✓ Report on attendance at the IASB Financial Instrument roundtable
- ✓ SAC agenda survey – for comment and feedback to our representative on the SAC

### Proposed revision of SSAP 13, Investment Properties

The Committee considered a draft ED of a proposed revision to SSAP 13, Accounting for Investment Properties, and Invitation to Comment thereon. The ED is based primarily on IAS 40, Investment Property. The Committee noted that the IASB's finalisation of proposed improvements to IAS 17, Leases, and IAS 40, Investment Property, is expected in due course and, accordingly, the ED should not be published for comment until it could reflect the IASB's finalised requirements especially with regard to leasehold classification and the application of the fair value and cost models in certain circumstances. The draft ED also proposes to carry forward a number of requirements presently found in SSAP 13, primarily concerning the treatment of valuation changes from one period to the next, pending developments on the IASB's income statement project. The Committee tentatively agreed to the following:

- ✓ The cost model should not necessarily be restricted to only those entities that presently qualify under the SSAP 13 exemption to open market value measurement.
- ✓ The present requirement for an independent valuer under SSAP 13 should be retained.
- ✓ The present SSAP 13 requirement for recognising value changes in reserves should be retained but that the Invitation to Comment should request comment on whether these changes should be accounted for on a portfolio basis.
- ✓ As a consequence of retaining the present SSAP 13 treatment of changes in fair value, the ED should similarly differ from IAS 40 in respect of value changes arising on the reclassification of assets to or from investment property.
- ✓ The ED should propose to supersede the 'transfers between categories of assets' provisions presently found in SSAP 17.
- ✓ Any revaluation gain realised on the disposal of an investment property should be recycled through the income statement.

The Committee agreed to further consider the proposed ED at its next meeting.

### Referral from the Accountants' Report Task Force (ARTF)

The HKSA's Accountants' Report Task Force (ARTF) sought the Committee's endorsement of the proposed Accounting Guideline (AG) 2.211 "Preparation of historical financial information for inclusion in investment circulars" and the proposed AG 2.212 "Preparation of pro forma financial information for inclusion in investment circulars" and, in particular, whether these proposed AGs are consistent with the existing SSAPs and other AGs.

The Committee noted that the proposed AG 2.211 is based on the UK SIR 200 "Accountants report on historical financial information in investment circulars" and the proposed AG 2.212 is based on ICAEW Technical Release TECH 18/98 "Pro forma financial information". The Committee also noted that the proposals in these AGs, once adopted, would result in a change to the existing practice. Accordingly, some of the existing Listing Rules would have to be altered to accommodate these changes.

Since members generally considered that more background information would be needed from the ARTF, in particular as to how the ARTF established its principles in these proposed AGs, before the Committee could proceed further in commenting on these documents, the Committee agreed to adjourn the discussion until the next meeting.

#### Report on attendance at the IASB Financial Instrument roundtable

The Committee received and noted a written report from Mr. Charles Grieve on attendance at the IASB Financial Instrument roundtables that were held in Brussels and London from 10 to 13 March 2003. In his report, Mr. Grieve stressed the following points:

- ✓ The IASB appears to accept that its proposed new “control-based” recognition model will be dropped. Accordingly, the IASB may revert to the current IAS 39 model, which is a mixture of the “risks and rewards” and “control-based” models.
- ✓ IASB would unlikely give up the following basic principles:
  - Financial instruments must be recognised at fair value.
  - Gains or losses must go to equity.
- ✓ There was a general agreement that internal hedging contracts need to be eliminated on consolidation.
- ✓ The large investment banks were against the hierarchy for valuation of financial instruments. In particular they would like to give primacy to their in-house valuation models. They are concerned that prices of market transactions are often distorted by factors other than the “true” value of the product.

#### SAC agenda survey – for comment and feedback to our representative on the SAC

The Committee noted that a survey was being carried out by the IASB’s Standards Advisory Council (“SAC”) on the IASB agenda items. This survey invites the views of the members of the SAC and the Board on the current work programme and on the active research agenda of the IASB, and also on topics being addressed by national standard-setters with a request for responses by 28 May 2003. Its aim is to assist the Board in the ongoing development of its work programme.

The Committee was given the opportunity to communicate any agenda priorities via the Hong Kong representative on the SAC and would consider this in more detail at its next meeting.

#### Date of Next Meeting

The Committee’s next meeting is tentatively scheduled to be held on 14 May 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](mailto:commentletters@hksa.org.hk).