

## Financial Accounting Standards Committee Meeting summary – May 2003

The Society's Financial Accounting Standards Committee (Committee) met on 14 May 2003.

Present at the Committee's meeting were: Messrs. Roger Best (Chairman), Carlson Tong (Deputy Chairman), Paul F. Winkelmann (Deputy Chairman), Chan Lok Sang, Edward K.F. Chow, Choy Chung-foo (represented by Mr. Vingle Yuen), William Crowe, Raphael Ding, Tommy Fung, Robert Gibson, Philip Hilliard, Andrew Huke, Quinn Y.K. Law, Tommy Tam, Stephen Taylor, Ms. Olivia Cheung, Ms. Susanna Lau, Mr. Simon Riley (HKSA Deputy Director, Accounting) and Ms. Elsa Ho (HKSA Assistant Director, Accounting).

The Chairman welcomed Mr. Chan Lok Sang and Mr. Quinn Y.K. Law to their first meeting as members of the Committee.

The Committee discussed the following items:

- ✓ Proposed ED/SSAP 13, Investment Property (revised)
- ✓ Referral from the Accountants' Report Task Force – requested FASC endorsement of 2 draft Accounting Guidelines
- ✓ SAC agenda survey – for comment and feedback to the HK representative on the SAC
- ✓ Deferred tax liability arising on the revaluation of non-depreciable assets

### Proposed ED/SSAP 13, Investment Property (revised)

The Committee continued to consider 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 but 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:

### Draft ED

- ✓ The ED would not be released until the IASB had finalised the proposed improvements to IAS 17 and IAS 40.
- ✓ For a transfer from investment property to owner-occupied property carried at valuation under SSAP 17, a revaluation surplus in respect of the individual asset concerned should be transferred to the relevant revaluation reserve account applying in respect of the owner-occupied property.
- ✓ For a transfer from investment property to owner-occupied property carried at valuation under SSAP 17, a revaluation deficit for the individual asset (which had been recognised as a debit in the investment property revaluation reserve on the basis that the reserve had a credit on a portfolio basis) is effectively an impairment loss and therefore should be expensed in the income statement upon transfer.
- ✓ For a transfer from investment property to inventory, a revaluation surplus for the individual asset should be frozen until the asset is disposed of, or reclassified as investment property.
- ✓ For a transfer from investment property to inventory, a revaluation deficit for the individual asset should be recognised as an expense in the income statement, consistent with the accounting requirements applying to inventories under SSAP 22 (lower of cost and NRV).
- ✓ For a transfer from inventory to investment property, a so-called "death bed" valuation would be made at the time of transfer and thereafter the newly classified asset would be accounted for as investment property.
- ✓ The treatment of investment property revaluations should be analogous to the IAS 39 treatment applying to available for sale financial instruments.
- ✓ The gain or loss of disposal of an investment property should be determined as the difference between the net disposal proceeds and the cost of the asset to ensure that revaluation is recycled through the income statement on realisation.

#### Invitation to Comment

- ✓ Comments should not be invited on areas where the ED proposes to adopt requirements applying in IAS 40. Instead, there should be a summary of the areas that do apply in IAS 40, and which are proposed to be adopted in the ED and which differ to the current treatment under SSAP 13. Similarly, the summary should identify areas that currently apply under SSAP 13 but which are not carried forward in the ED (for example, the “15% rule” and the “20 year” rule).
- ✓ Comments should primarily be invited on areas where the ED proposes to deviate from the requirements applying in IAS 40.

The Committee considered that guidance in addition to that found in IAS 40 may be required in respect of the criteria applying for an asset to be accounted for as investment property. This guidance would be particularly relevant to the treatment applied to service apartments and owner-occupied hotels. The Committee agreed that the matter should be referred to the Urgent Issues and Interpretations Sub-committee for consideration.

The Committee also considered whether additional guidance on the use of valuation standards (for example, those applying in Hong Kong, as issued by the IVSC and/or standards that conform to those issued by the IVSC) – appearing in the IAS 40 Basis for Conclusions – should be included within the ED. The Committee agreed that the two valuation institutes should be approached to discuss the professional valuation requirements proposed in the draft ED with a view to determining whether Hong Kong valuation standards and guidance conforms to that issued by the IVSC.

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

#### Referral from the Accountants’ Report Task Force – requested FASC endorsement of 2 draft Accounting Guidelines

The Committee considered 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” that were referred to for its consideration by the HKSA’s Accountants’ Report Task Force.

The Committee endorsed the two proposed AGs subject to certain specific comments. The Committee also made the general note that the proposed AGs should be updated regularly in order to bring them in line with SSAPs. In particular, the IASB has recently issued an exposure draft on Improvements to IAS that would result in changes to a number of SSAPs. Accordingly, there is a need to revisit the proposed AGs when the IASB exposure draft is finalised. These comments would be passed to the ARTF for consideration.

#### SAC agenda survey – for comment and feedback to the HK 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 considered that the following six projects, comprising both active research topics currently being undertaken by the IASB and other possible agenda items that national standard setters are addressing, deserve the highest priority and should be ranked in the following order:

1. The application of IFRSs to small and medium sized entities and in emerging economies
2. Lease accounting
3. Impairment of Assets
4. Derecognition issues, other than those addressed in IAS 39
5. Accounting concepts/ Definition of Elements of Financial Statements
6. Management’s discussion and analysis

The Committee also considered that the following topics should be included in the research agenda:

1. Related party transactions between entities under common control other than as part of a business combination
2. Discounting

The Committee also considered that the following six projects, on which the IASB is already actively engaged, deserve the highest priority and these projects should be ranked in the following order:

1. Reporting Performance
2. Consolidation (including SPEs)
3. Business Combinations
4. Revenue – definition and recognition – and related aspects of liabilities
5. Improvements to IAS
6. Share based payments

The Committee would communicate the above agenda priorities to the Hong Kong representative on the SAC.

#### Deferred tax liability arising on the revaluation of non-depreciable assets

The Committee considered an issue regarding the measurement of a deferred tax liability arising on the revaluation of a tangible non-current asset that is not subject to a depreciation expense in the income statement, such as an investment property carried at fair value.

The Committee noted that there is a difference between SIC-21 and Hong Kong Interpretation 20. Under SIC-21 that component of an investment property, which, if IAS 16 were to be applied, would be considered to be depreciable (i.e. the building component) is scoped out of SIC-21. This is not the case under Interpretation 20.

The Committee considered that the application of Interpretation 20 to an investment property carried at valuation where the applicable tax rate is zero would result in a temporary difference that is not taxable and therefore the revaluation would not give rise to a deferred tax liability (save for the effect of any balancing charge).

In addition, the Committee considered that:

- ✓ The IFRIC should be approached with regard to the Committee's concerns on the application of SIC-21, specifically on how IAS 12 should be applied differently in concept depending on whether the investment property is carried primarily for capital appreciation or for rental income purposes.
- ✓ SIC-21 is somewhat outdated now that IAS 40 has replaced IAS 25.
- ✓ Differences may arise under the application of Interpretation 20 depending on whether the valuation is performed on a pre-tax or after-tax basis.
- ✓ The difference in Interpretation 20 vis-à-vis SIC-21 should be attended to when SSAP 13 is revised.

The Committee also considered another issue with regard to the initial adoption of the revised SSAP 12 and the impact on goodwill. The Committee considered that, if the initial adoption of the revised SSAP 12 has an impact on the calculation on goodwill at the time of acquisition of an enterprise, an adjustment to goodwill would be made in accordance with SSAP 2 unless the amount that relates to prior periods is not reasonably determinable.

#### Date of Next Meeting

The Committee's next meeting is tentatively scheduled to be held on 20 June 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).