



Financial Reporting Standards Committee
Meeting summary – January 2005

The Institute's Financial Reporting Standards Committee (Committee) met on 12 January 2005.

Present at the Committee's meeting were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Choy Chung-foo (represented by Mr. Vingle Yuen), Raphael Ding, Tommy Fung, Tommy Tam, Stephen Taylor, Ms. Rebecca Chan, Ms. Susanna Lau, Mrs. Catherine Morley and Ms. Elsa Ho (HKICPA Assistant Director, Financial Reporting).

The Committee discussed the following items:

1. Guidance developed by the Financial Reporting Interpretations Sub-Committee
2. Length of lease term in respect of Hong Kong land leases
3. Adoption of new Standards and Interpretations in Hong Kong
4. SSAP 27 *Accounting for Group Reconstructions*
5. Amendment to IAS 39 *Financial Instruments: Recognition and Measurement - Transition and Initial Recognition of Financial Assets and Financial Liabilities*
6. Revaluation of leasehold property
7. Proposed meeting dates for 2005
8. Approach to deal with consequential amendments not yet put through in the relevant Standards
9. Disclosure of the impact of the adoption of new Standards and Interpretations

1. Guidance developed by the Financial Reporting Interpretations Sub-Committee

The Committee noted that the following proposed guidance developed by the Financial Reporting Interpretations Sub-Committee had been submitted to Council for approval to be issued as exposure drafts for a one-month consultation period:

- a. Draft Interpretation 24 *Revenue – Pre-completion Contracts for the Sale of Development Properties*; and
- b. Proposed Guidance on the Accounting of a Deemed Disposal

2. Length of lease term in respect of Hong Kong land leases

The Committee received the latest draft discussion paper covering issues that concern the length of lease term in respect of Hong Kong land leases. Members were requested to consult internally with their international technical experts on the issues identified in the draft discussion paper, with a view to providing a feedback to the Committee for consideration at its next meeting.

3. Adoption of new Standards and Interpretations in Hong Kong

The Committee noted that the IASB had recently issued the following new Standards and Interpretations:

- a. IFRS 6 *Exploration for and Evaluation of Mineral Resources* (effective for 1 January 2006 with earlier application encouraged);
- b. IFRIC Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments* (effective for 1 January 2005 with earlier application permitted);
- c. IFRIC Interpretation 3 *Emission Rights* (effective for 1 March 2005 with earlier application encouraged);
- d. IFRIC Interpretation 4 *Determining Whether an Arrangement Contains a Lease* (effective for 1 January 2006 with earlier application encouraged); and
- e. IFRIC Interpretation 5 *Rights to Interests Arising from Decommissioning, Restoration and*

Environmental Rehabilitation Funds (effective for 1 January 2006 with earlier application encouraged);

and the following Amendments to the existing Standard and Interpretation:

- f. Amendment to IAS 19 *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosure* (effective for 1 January 2006 with earlier application encouraged); and
- g. IFRIC Amendment to SIC-12 *Consolidation – Special Purpose Entities* (effective for 1 January 2005 with earlier application permitted if an entity applies IFRS 2 for an earlier period).

The Committee also noted that no comments had been received by the secretariat in respect of the above proposed new Standards and Interpretations and Amendments to the existing Standard and Interpretation when they were exposed for consultation.

In line with the convergence policy and at the recommendation of the Sub-Committee, the Committee agreed to recommend Council to approve the issue of the equivalent new Standards and Interpretations in Hong Kong that are converged with the new Standards and Interpretations issued by the IASB (Statements (a) to (e) above) with no modification.

The Committee also agreed to recommend Council to approve the issue of Amendments to the equivalent existing Standard and Interpretation in Hong Kong that are converged with the Amendments to existing Standard and Interpretation issued by the IASB (Statements (f) & (g) above), subject to certain minor drafting amendments to the background described in the IASB Amendments to fit the Hong Kong circumstances.

The Committee also agreed that all these new Standards and Interpretations and Amendments to the existing Standard and Interpretation to be issued in Hong Kong should become effective concurrently with their equivalents issued by the IASB.

4. SSAP 27 Accounting for Group Reconstructions

In response to the concerns expressed over the proposed withdrawal of SSAP 27 without an immediate replacement of any guidance on the use of merger accounting, the Committee agreed that, as an interim measure, some guidance should be issued on the area of merger accounting for the period between the time when SSAP 27 is withdrawn and the HKSIR series becomes effective. The Committee agreed to set up a working group to develop the guidance with a view to making a recommendation to the Committee as early as practicable.

5. Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Transition and Initial Recognition of Financial Assets and Financial Liabilities

The Committee was asked to confirm whether the changes resulting from the recently issued Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities* would have any significance to Hong Kong, given that, unlike IAS 39, HKAS 39 is to be applied prospectively with early application and limited retrospective application permitted. The Committee did not reach a conclusion on this at the meeting. Members were requested to consult with their technical departments on the above issue and provide feedback to the secretariat prior to the next meeting.

The Committee, however, agreed that, in the case where the Committee subsequently confirmed that there is no need to adopt this amendment to IAS 39 in Hong Kong, a note would have to be included in HKAS 39 explaining why this is the case.

6. Revaluation of leasehold property

The Committee considered an issue arising from the initial application of HKASs 16 and 17 where leasehold owner-used properties had been carried at valuation under SSAP 17. In the case of banks, as 70% of their property revaluation reserve is treated as Tier Two Capital for the calculation of Capital Adequacy Ratio, any change in accounting treatment would have a significant impact on the calculation of such a ratio.

After discussion, the Committee considered that the above issue is not a financial reporting, but a regulatory, issue. The Committee therefore considered that this matter should be referred to the Institute's Expert Panel on Banking for discussion with the Hong Kong Monetary Authority.

7. Proposed meeting dates for 2005

The Committee agreed to meet on the following dates in 2005:

12 January
16 February
9 March
13 April
11 May
8 June
13 July
7 September
12 October
9 November
7 December

The Committee agreed that a meeting would also be held in August if there is a need for it.

8. Approach to deal with consequential amendments not yet put through in the relevant Standards

The Committee noted that consequential amendments resulting from the issue of the new and revised Standards under the completed convergence project had not been incorporated into the following Standards:

HKAS 28 Investments in Associates
HKAS 32 Financial Instruments: Disclosure and Presentation
HKAS 33 Earnings Per Share
HKAS 39 Financial Instruments: Recognition and Measurement
HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 3 Business Combinations

The Committee considered the approach to deal with these consequential amendments and decided that the above Standards should be updated for these consequential amendments as a "house-keeping" exercise as soon as resources are available.

9. Disclosure of the impact of the adoption of new Standards and Interpretations

The Committee received and considered the proposed recommended disclosure in a Circular to be issued jointly by the Committee and the Auditing and Assurance Standards Committee (AASC) with the endorsement of Council. The purpose of the proposed Circular is to encourage preparers, and auditors to recommend their clients, to make the disclosure, as

recommended in the Circular, in their financial statements for the years ended on or after 31 December 2004 of the impact of adopting of new HKFRS in subsequent financial statements. After discussion, the Committee agreed some changes to the wording of the proposed recommended disclosure.

Date of Next Meeting

The Committee agreed to hold its next meeting on 16 February 2005.

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.

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

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