



To: Assignment/Business Section Editor
(FOR IMMEDIATE RELEASE)

**Hong Kong Institute of CPAs Announces Completion of Convergence of
Hong Kong's Financial Reporting Standards with the
International Financial Reporting Standards**

(HONG KONG, 9 December 2004) - The Hong Kong Institute of Certified Public Accountants today announced that, with the publication of five Hong Kong Accounting Standards, the suite of financial reporting standards applying in Hong Kong will be fully converged with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board effective for financial reporting periods that begin on or after 1 January 2005.

The five Standards are:

HKAS 17 *Leases*;
HKAS 23 *Borrowing Costs*;
HKAS 24 *Related Party Disclosures*;
HKAS 31 *Investments in Joint Ventures*; and
HKAS 40 *Investment Property*.

While the HKFRS will be in all material respects fully converged with IFRS, it should be noted that there is one remaining exception that applies only to Hong Kong companies in terms of which entities are regarded as being subsidiaries for the purpose of preparing consolidated financial statements. The issue, as regards the definition of "subsidiary" in consolidated financial statements, is the result of a different definition being applied in the Hong Kong Companies Ordinance and is currently being addressed in a Bill before the Legislative Council.

The Institute's Financial Accounting Standards Committee (FASC) has carefully considered the eight comment letters received on the proposed new standards. Of the eight letters received, three expressed opposition to the convergence of the investment property with its international equivalent, IAS 40.

Commentators raised a number of issues in relation to which the HKICPA said it will further liaise with the IASB for a long-term solution. These include the apparent disparity between the treatment of changes in the fair value of available-for-sale financial instruments under IAS 39 (HKAS 39), which are reserve accounted, and investment property under IAS 40 (HKAS 40) that is reflected through the income statement. There are also issues with regard to the application of the leases standard in Hong Kong. A summary of these issues is provided in the Annex to this press statement. A comprehensive explanatory memorandum, which provides details on the transition to fully converged standards and the differences from the accounting standards previously in effect, will be made available on the HKICPA website.

It is worth noting, however, in introducing these new HKAS, that the Institute has a long-standing policy of working towards full convergence with IFRS and this policy has been endorsed on numerous occasions by many interested bodies, including the SFC, the HKEx and the FSTB. The Institute also has a Standard Setting Steering Board, an oversight body comprising of regulators, preparers, and practitioners, and they continue to endorse this policy. Arguably, financial statements prepared under one global set of standards will be far more useful to a far greater number of people. The HKICPA believes that the policy of fully converging Hong Kong's accounting standards with those set by the IASB is the best policy for Hong Kong, and indeed it notes that the International Monetary Fund has, in the past, been critical of Hong Kong for not having adopted certain IASs. The HKICPA is also fearful that the alternative – which is to be accused of “cherry picking” standards that we like – would cause Hong Kong more harm than good in terms of its international reputation as a well organised and well regulated financial centre.

With the changes brought about by international convergence, HKICPA believes the key issue then is investor education to ensure understanding of the changing view of financial reporting.

The Institute also announces that it has amended the transitional provisions that apply in the accounting standards that deal with financial instruments, HKAS 32 and HKAS 39. When these two HKAS were issued earlier this year, the transitional provisions prohibited both early adoption and retrospective application. In response to feedback received since the initial publication of these standards, the Institute has amended the transitional arrangements to permit, but not require, early adoption and to align the provisions regarding retrospective application with those found in the original version of IAS 39.

The Institute notes that the International Accounting Standards Board (IASB) has a full project agenda and a number of improvements to the standards are currently in the pipeline. But the international standards that will now be applied in full in Hong Kong, are superior to current practice in at least two respects – they put Hong Kong on a path that will keep us in line with developments and enhancements in international best practice for the long term and, as a result, this should enhance the standard of corporate financial reporting in Hong Kong which is good for investors and for Hong Kong's standing as a leading international financial centre.

Commenting on the achievement of full convergence with the IASB's standards, FASC Chairman Mr. Paul F. Winkelmann commented, "This is a significant milestone in corporate financial reporting in Hong Kong. With Hong Kong companies - especially those companies with securities traded publicly - the investing public and other users of financial statements will now have information that is regarded as being at par with international standards. This will facilitate comparison with other companies not only in Hong Kong but in the many other jurisdictions around the world that apply the IASB's standards. We hope that preparers and users of financial statements will continue to embrace this change in the public good for Hong Kong."

Mr. Winkelmann also commented that the Institute's role in setting accounting standards for Hong Kong will now change that full convergence has been achieved. "The Institute's FASC will now be taking on a new role to act as the liaison between the financial reporting constituency in Hong Kong and the International Accounting

Standards Board. When issues arise on the application of the IFRS in Hong Kong, as part of our role as the Hong Kong standard setter, we will be raising matters with the IASB and proposing and seeking solutions within the global standard setting environment. Adding this role to the FASC's mandate will be a necessary part of keeping our standards relevant, appropriate and fully converged with international practice."

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Editor's Notes

About Hong Kong Institute of Certified Public Accountants

The Hong Kong Institute of CPAs is Hong Kong's only statutory licensing body for accountants with more than 22,000 members and nearly 10,000 registered students. Members of the Institute are entitled to the description *Certified Public Accountant* and to the designatory letters *CPA*.

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance, working in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate CPA Qualification Programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

For more information, please contact:

Stella To
Deputy Director, Media Relations & Marketing
Hong Kong Institute of Certified Public Accountants
Email: stella@hkcipa.org.hk
Phone: 2287 7209
Mobile: 9027 7323

Annex

Summary of follow-up items resulting from the adoption of HKAS 17, HKAS 24 and HKAS 40

HKAS 17 Leases

- To raise with the IASB the concern that the changes to IAS 17 did not go far enough to permit leasehold property interest that would not otherwise satisfy the definition on an investment property to be accounted for as property, plant and equipment at valuation.
- To meet with the Hong Kong Institute of Surveyors to discuss whether a consistent approach could be adopted as regards whether the lease payment could be allocated reliably between the land and building elements of the properties in Hong Kong.
- To develop a paper to deal with the issues concerning the interpretation of “lease term” in respect of Hong Kong leasehold interests.

HKAS 24 Related Party Disclosures

- To write to the IASB raising the issue concerning an apparent anomaly in the definition of related parties.

HKAS 40 Investment Property

- To write to the Stock Exchange, enclosing the letter from the Real Estate Developers, requesting them to consider an amendment to the Listing Rules in respect of significant transactions following the introduction of HKAS 40.
- To include in the FASC's 2005 work plan the consideration of adapting the UK Technical Bulletin on the determination of realised profits under the UK Companies Act once it has been updated and revised subsequent to the adoption of IFRS in the UK in 2005 (this is in line with the recommendation made by the Urgent Issues and Interpretations Sub-Committee during its last review of the UK Technical Bulletin).
- To ask the IASB to revisit the definition of investment property in particular to remove the reference to the rental objective as this might indicate that the property is more in the nature of property, plant and equipment rather than an investment property.