



Financial Reporting Standards Committee
Meeting summary – June 2006

The Institute's Financial Reporting Standards Committee (Committee) met on 14 June 2006.

Members of the Committee present were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Colin Chau, Mabel Cheung, Paul Hebditch, Susanna Lau, Li Kwok Tso, Catherine Morley, Saleem Razvi, Tommy Tam, Stephen Taylor, Tsang Kwok Yuk and Stephanie Zurmuhlen.

Secretariat staff present were: Elsa Ho and Steve Ong.

The Committee discussed the following items:

1. Responses from the IASB on financial reporting issues
2. Information Paper: Setting HKFRSs
3. Proposed UITF Abstract "The interpretation of equivalence for the purposes of section 228A of the Companies Act 1985"
4. Report from the SME Framework Sub-Committee

1. **Responses from the IASB on financial reporting issues**

The Committee received the reply from the IASB on the issues raised with Sir David Tweedie during his last visit to Hong Kong.

In going through the IASB reply, the Committee agreed the following:

- Whether a set of financial statements can comply with both HKFRSs and IFRSs is a matter of fact and should be determined on a case by case basis by the auditors even though, in many cases, auditors might not be able to give a dual opinion because of the differences in the transitional provisions included in the two GAAPs.
- A copy of the IASB reply should be sent to the HK representatives on the Standards Advisory Council (SAC) and the IASCF Trustees as the reply refers to the need to consult with the SAC and the IASCF Trustees for adding certain projects to deal with the issues on leasing and related party disclosures.
- There is a need to keep pushing for a Hong Kong representative to be appointed to the IASB Working Group on leasing as this area of accounting is particularly important to Hong Kong.

The Committee also noted that the IASB had some discussion about amending IAS 24 *Related Party Disclosures* for state-owned entities at its May 2006 meeting and requested the secretariat to find out more information about the IASB discussion.

(Post meeting note: According to the May 2006 IASB Update, the IASB instructed the staff to develop an agenda proposal for amendments to IAS 24. The agenda proposal will be discussed with the SAC and Trustees before being brought to the IASB for an agenda decision.)

2. **Information Paper: Setting HKFRSs**

The Committee received the Information Paper “Setting HKFRSs” that was recently issued by the Institute. The attention of the Committee was drawn to the following requests of Council as set out in that paper:

- The Committee to review the Preface to take account of the completion of Phase I of the convergence programme.
- The Committee to separate its published due process between international convergence issues and domestic financial reporting issues (e.g. for SMEs).
- The Committee to maintain its role as the interface between Hong Kong stakeholders and IASB.

Regarding the request to review the Preface, the Committee requested the secretariat to propose changes to the Preface for its consideration at its next meeting.

Regarding the request to separate the due processes, the Committee noted that a paper on the framework and process for the maintenance and update of the SME-FRS & FRF is being prepared by the secretariat.

Regarding the request to maintain the Committee’s role as the interface between Hong Kong stakeholders and IASB, the Committee agreed to follow the plans of Council in supporting the development of IFRSs and the implementation of HKFRSs in Hong Kong as specified in the Information Paper.

3. **Proposed UITF Abstract “The interpretation of equivalence for the purposes of section 228A of the Companies Act 1985”**

The Committee received a draft submission on the proposed UITF Abstract “The interpretation of equivalence for the purposes of section 228A of the Companies Act 1985”. This proposed UITF Abstract refers to Hong Kong GAAP as being a GAAP that is based on IFRSs but does not correspond to IFRSs in all respects. The draft submission basically requested that the reference to Hong Kong GAAP be removed as, except for the transitional provisions, HKFRSs are verbatim and fully converged with IFRSs with effect from 1 January 2006.

The Committee had a debate as to the meaning of “fully converged”. After deliberation, the Committee came to the view that “fully converged” means “word-for-word the same”. The Committee requested the secretariat to prepare a list summarising all the textual differences between HKFRSs and IFRSs for reference.

The Committee requested the secretariat to amend the draft submission slightly so as to point out that the blanket reference to Australia, Hong Kong and South Africa GAAPs as being GAAPs that are based on IFRSs but do not correspond to the IFRSs in all respects might be out of date as these jurisdictions, including Hong Kong, have put in a lot of effort in recent years to achieve convergence with IFRSs. Accordingly, instead of making the blanket reference to those GAAPs, it seems more appropriate to give examples of how a GAAP might differ from IFRSs similar to the example of the elimination of choices under the Australian GAAP in that proposed UITF Abstract.

4. Report from the SME Framework Sub-Committee

The Committee received and considered the draft meeting notes of the last meeting of the SME Framework Sub-Committee (SC).

ED on IFRS for SMEs

Regarding the SC's discussion on the forthcoming IASB exposure draft on IFRS for SMEs, the Committee agreed with the view of the SC that the Institute should continue raising concerns about the approach taken by the IASB in drafting the IFRS for SMEs, in particular using the same recognition and measurement bases as the full IFRSs, the amounts of cross referencing to the full IFRSs and the mandatory fallback to the full IFRSs.

The Committee also agreed with the view of the SC that, in the case where the IASB decides to proceed with the IFRS for SMEs as currently proposed, a request should be made to the IASB for allowing a jurisdiction to decide whether or not to adopt the IFRS for SMEs.

Guidance for SME groups

The Committee noted that the SC had agreed to take on a project on developing guidance for SME groups in view of the potential proposals to extend the application of s141D to small groups. The Committee however considered that, conceptually, the guidance for SME groups should not be radically different from HKFRSs but the SC could look into the needs and problems of SMEs to decide what areas of consolidation can be simplified for small groups. The Committee also reminded the SC that more robust guidance would be needed for transitions in and out the small groups as the size of a group can change significantly purely by adding or disposing of a subsidiary.

SME Standard - Application issues

The Committee generally agreed with the view of the SC that a qualification for failure to prepare consolidated financial statements would not be needed in the audit report of the individual financial statements of an overseas intermediate holding company applying SME-FRS in the situation where that holding company does not meet the conditions for not preparing consolidated financial statements under HKAS 27 *Consolidated and Separate Financial Statements*. This is because the financial statements prepared using the SME-FRS fall outside the scope of HKFRSs and thus are not required to comply with any HKFRS, including HKAS 27. Given that this is an auditing issue, the Committee however requested the secretariat to refer the view of the SC to the AASC for endorsement.

(Post meeting note: The AASC endorsed the view of the SC at its subsequent meeting.)

The Committee noted the view of the SC that a Hong Kong incorporated company that has an investment in the PRC, which is under its control but does not meet the legal definition of subsidiary, could still apply SME-FRS as such a company is likely to meet the criteria for applying S141D. The Committee however considered that this situation would rarely happen in practice and did not believe that it is an issue for most of the companies applying SME-FRS.

Date of Next Meeting

The Committee agreed to hold its next meeting on 12 July 2006.

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>.

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

Copyright 2005 The Hong Kong Institute of Certified Public Accountants. All rights reserved.

Permission is granted to make copies of this Meeting Summary provided that such copies are for use in academic classrooms or for personal use and are not sold or disseminated, and provided further that each copy bears the following credit line: "Copyright by the Hong Kong Institute of Certified Public Accountants. All rights reserved. Used by permission". Otherwise, written permission from the Hong Kong Institute of Certified Public Accountants is required to reproduce, store or transmit this document, except as permitted by law.

Meeting Summaries are provided for the information and convenience of those who wish to follow the Committee's deliberations. Decisions reported are tentative and may be changed or modified by the Committee at a later date. Decisions become final only after completion of the formal due process required to finalize and release documents. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this Meeting Summary, or for any errors or omissions in it.