

Financial Accounting Standards Committee Meeting summary – June 2003

The Society's Financial Accounting Standards Committee (Committee) met on 20 June 2003.

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

The Committee noted that the Hong Kong Investment Funds Association had advised of its withdrawal from the Committee. The Committee discussed the following items:

- ✓ Proposed ED/SSAP 13, Investment Property (revised)
- ✓ Rights of Use
- ✓ Real Estate Investment Trusts
- ✓ Referral to Auditing & Assurance Standards Committee – proposed amendment to the wording of an auditor's report
- ✓ IFRS 1, First-Time Adoption of IFRS

Proposed ED/SSAP 13, Investment Property (revised)

The Committee continued its consideration of a proposed revision to SSAP 13, Accounting for Investment Properties. The proposed Exposure Draft 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 and the requirement to use an appropriately qualified independent valuer. The Committee had agreed that the present SSAP 13 treatment of changes in the value of investment property from one period to another should be retained until the IASB has finalised its proposals regarding the income statement. The Committee reconfirmed its earlier decision that the Exposure Draft would not be released for public comment until after the IASB had completed its deliberations on proposed improvements to IAS 17, Leases, and IAS 40, Investment Property, issued as part of the Improvements Project ED in 2002. The Committee agreed to further consider the proposed ED at its next meeting.

Rights of Use

The Committee considered a paper raising issues and providing technical discussion on the accounting treatment of transport infrastructure facilities, particularly in Mainland China. These facilities normally comprise 3 components: namely, operating rights, land use rights and transport infrastructure (for example toll road or tunnels). The Committee noted that different classifications and depreciation / amortisation methods are being adopted by transport infrastructure operators. Common practices are as follows:

- ✓ Operating rights are either included under fixed assets or separately classified as operating leases or intangible assets
- ✓ Land use rights are either included under fixed assets or separately classified as operating leases.
- ✓ Both sinking fund method and straight-line method are adopted for the amortisation of operating lease and intangible assets
- ✓ Sinking fund method is commonly adopted for the depreciation of fixed assets

The Committee agreed to refer this to the Urgent Issues and Interpretations Sub-Committee (UII) for further consideration. The Committee also suggested that the UII should assist in drafting a discussion paper which sets out all the related issues with a view to enlisting the Hong Kong representative on the International Financial Reporting Interpretations Committee (IFRIC) to take these issues forward to the IFRIC for consideration.

Real Estate Investment Trusts

The Committee noted that in March 2003 the Securities and Futures Commission (SFC) issued a Consultation Paper on The Draft Code on Real Estate Investment Trusts (REITs), which includes a number of financial reporting requirements and amongst which is that the REIT should conform to accounting standards set by the HKSA.

The Committee considered that some of the accounting requirements proposed under the Consultation Paper might not be consistent with the requirements under SSAPs. The Committee agreed that a meeting with the SFC should be

arranged to explain the issues identified. The Committee also agreed that there would be a need to issue an accounting guideline on preparing financial statements for REITs after the SFC has finalised its proposals.

Referral to Auditing & Assurance Standards Committee – proposed amendment to the wording of an auditor’s report

The Committee considered a query raised by the Auditing & Assurance Standards Committee as to whether by adopting the term “HKFRS” in place of “accounting principles generally accepted in Hong Kong” in auditors’ reports, as previously proposed by the Committee, would continue to impose an obligation for financial statements to be prepared with reference to the applicable Accounting Guidelines issued by the HKSA.

The Committee was of the view that, since Accounting Guidelines are persuasive in intent and are not mandatory on members of the HKSA, the proposed amendment to the wording of an auditor’s report would not affect the status of Accounting Guidelines. However, given that there are presently no SSAPs equivalent to IAS 32 and IAS 39, which are part of the core standards under IASs, the Committee considered that the proposed amendment should only be taken place after IAS 32 and IAS 39 have been introduced and become effective in Hong Kong.

IFRS 1, First-Time Adoption of IFRS

The Committee noted that the IASB has recently approved the issue of IFRS 1, First-Time Adoption of IFRS. The Committee agreed to consider at its next meeting a proposed HKFRS 1, based on IFRS 1, with a view to recommending Council’s approval of the new Standard to become effective from 1 January 2004 – concurrently with the effective date of IFRS 1.

Date of Next Meeting

The Committee’s next meeting is tentatively scheduled to be held on 13 August 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.